FEDERAL RETIREMENT SYSTEM—OVERVIEW

HEARING

BEFORE THE

SUBCOMMITTEE ON
CIVIL SERVICE

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

MARCH 7, 1995

Printed for the use of the Committee on Government Reform and Oversight

U.S. GOVERNMENT PRINTING OFFICE

20–995 CC WASHINGTON : 1996

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-052260-9

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CONTENTS

FEDERAL RETIREMENT SYSTEM—OVERVIEW

TUESDAY, MARCH 7, 1995

U.S. House of Representatives,
Subcommittee on Civil Service,
Committee on Government Reform and Oversight,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 2247, Rayburn House Office Building, the Honorable John L. Mica (chairman of the subcommittee) presiding.

Present: Representatives Mica, Gilman, Burton, Morella, Bass, Clinger, Davis, Moran, Mascara, and Collins.

Also present: Representative Hoyer.

Staff present: George Nesterczuk, staff director; Daniel E. Moll, senior policy director; Garry Ewing, counsel; Susan Mosychuk, professional staff; Caroline Fiel, clerk; Cedric Hendricks, professional staff member; and Bruce Gwinn, senior policy analyst.

Mr. Mica. I would like to begin our hearing. We have a long day and some important business before us.

I welcome you to the Subcommittee on Civil Service this morning, and welcome our witnesses. I have a couple of opening remarks and then will yield to some of the other members on our subcommittee.

We also have the chairman of our full committee with us this morning. Welcome, Mr. Clinger.

I want to again welcome the witnesses and those participating today. This morning we have representatives of all levels of employees in the Federal Government, including the U.S. Postal Service, with us. We have asked our witnesses to testify with suggestions to assist the 104th Congress in making the Federal retirement system more affordable, in the context of helping to balance our national budget.

As you may know, the Committee on Government Reform and Oversight has the responsibility in the House of Representatives to review the mandatory spending programs in its jurisdiction, to aid in the deficit reduction process. Inasmuch as the principal mandatory budget spending item within this subcommittee's jurisdiction is the Federal retirement system, we have, of necessity, focused on the multi-billion-dollar drain it imposes each year.

Employee salary and benefits represent nearly 10 percent of the Government's annual operating budget. In any real deficit reduction exercise, operating expenses must be carefully reviewed. The benefit portion of our compensation package can be justified on the basis of having a need to attract and retain a competent workforce in a competitive job market. Unfortunately, the Government does

not have the benefit of a bottom-line, a profit and loss statement, or the requirement to discipline or control its tendencies toward generosity.

As a result, we have inherited, and I have inherited as chairman of this subcommittee, an unfunded liability in the Civil Service Retirement System in excess of half a trillion dollars. We have $540 billion, by some estimates, and it goes as high as three-quarters of a billion, depending on who is calculating it and what figures you take into consideration.

Just on the half a trillion dollars unfunded liability, each month taxpayers underwrite losses of nearly $1½ billion dollars. We must stem the bleeding and cut our mounting losses. There's no question about it.

The creation of the Federal Employees Retirement System in 1986 closed the old system and forced some control over this huge debt. Nonetheless, it will take decades before we can finally retire the debt, the result of spendthrift and wasteful policies of the past.

We must now look at the current retirement system, bearing in mind that the Government, as an employer, bears over 70 percent of the cost of these benefits. Can we or should we continue to fund the system at this level? As an alternative, should we reduce the benefits structure in order to reduce the cost? Are there any other options available? These are the questions that we hope to hear about from our witnesses today.

During the past weeks, I have informally met with many of the presidents and representatives of unions and various associations. I welcome the opportunity to hear each of those individuals and others today, as they share with us their views on the Federal retirement system.

Let me underscore that this is a retirement system shared by Members of Congress and congressional staff. We will be looking at that part of the system at a future hearing, and we intend to have congressional Members and staff also come under the same scrutiny. I can assure you that no one will go unexamined in this process and I make that commitment to the members of the subcommittee, the Congress, and the associations and representatives with us today.

Your views are very important to us in this process. I know this is a very sensitive subject for millions of Federal employees and retirees, and we appreciate the time and effort you have made to speak to us today.

Just a couple of personal notes that I want to make, and this doesn't reflect the opinion of the subcommittee, but I want to say that, after reviewing some of the options, I personally do not favor delays in COLA's or other inequities that may be cast about as solutions to some of the funding problems. I personally do not favor changing the contract we have made with our Federal retirees by cutting base benefits, and I personally do not favor attacking or limiting health or insurance benefits.

Of course, these are my own personal opinions, and we have to hear from you with your proposed solutions, and then be part of a larger process with the subcommittee, the full committee, and the Congress, both the House and the Senate. But we must take action,

as I said, to stop the bleeding, and we have some serious liabilities at hand that must be addressed.

So with those opening remarks, again I welcome the witnesses. Since we have our ranking member here, Jim Moran, and our chairman, Mr. Clinger, I will first defer to the chairman of the full committee to see if he has any opening remarks.

Mr. CLINGER. Thank you very much, Mr. Chairman.

Just very briefly, I want to express my appreciation to you and thank you, as chairman of the subcommittee, for holding these very important hearings on possible reforms, needed reforms, to the Federal Civil Service Retirement System.

It is apparent that a very wide range of employee and retiree groups are represented here today, and we are going to listen to their testimony very carefully. I want to thank each and every one of them for coming here today to be with us and to give your concerns and your thoughts and your ideas as we move forward.

While it is clear that the subcommittee is going to have to consider a number of options for making reforms to the current system, I want to stress to everyone here that nothing—nothing—has been set in stone. No decisions have been made. We are here today to hear your ideas and welcome them in any form as we continue this process. We really welcome your input into the process, and it will definitely be considered as we move forward.

So I want to thank all of you for coming and look forward to hearing your testimony.

Thank you, Mr. Chairman.

Mr. MICA. I thank the chairman of the committee.

We also have the ranking individual of the full committee, Cardiss Collins, who has joined us. We are very pleased to have Congresswoman Collins join us, and I would yield to her for any opening comments or statement.

Mrs. COLLINS OF ILLINOIS. I very much thank you, Mr. Chairman, and I do have some questions that I want to raise at this time.

Mr. Chairman, your letter of invitation to witnesses attending this hearing states that the subcommittee has been "tasked" with making ways to reduce the cost of Federal employees retirement programs. My question is: Who has tasked us with this responsibility? We haven't acted on a budget resolution as yet, which will identify spending and reduction targets for the next fiscal year. So I wondered, at whose direction are we being directed to cut Federal retirement programs?

Last Friday, I got at least a partial answer to this question. I was told by my staff that the majority leadership in the House has directed this committee to cut $12 billion out of the projected cost of the Federal retirement programs over the next 5 years. And we were told that the leadership had directed the committee to report the legislation by the middle of the month.

It is my further understanding that if the committee fails to meet this deadline or if it fails to cut the Federal retirement costs by the full $12 million, the Budget Committee will make the necessary cuts with or without our approval, in conjunction with the Rules Committee.

Now, this is the second week of March, and to meet this deadline I can only assume the chairman plans to bring before the committee legislation to achieve savings of the $12 billion from the Federal retirement program sometime next week. It is therefore clear to me, and I would think to the Federal employee and Federal retirement groups who are here today, that this hearing is nothing more than an afterthought.

Regardless of what is said today, Federal workers and retirees would have to think that the leadership in the House apparently intends to force them to give up the $12 billion worth of retirement benefits or salary to pay for some other benefits. I have still not been told where this $12 billion figure came from or for what purpose these savings are going to be used.

So it's my understanding the House will not vote on the budget resolution until May, even though the Budget Act requires the House and the Senate to complete action on the budget resolution by April 15. The whole purpose of the budget resolution is to debate these matters openly so that Members can make decisions; for example, about how much to cut from retirement programs for the elderly versus cuts in farm subsidies, or defense, or education.

Without that kind of debate, where everything is on the table, not just spending for social programs, Members don't have any way of knowing whether cuts of $12 billion make any sense or not. Therefore, who is to say this figure should not be $5 billion, or $9 billion, or perhaps no billions at all.

Furthermore, it's not at all clear that the Republican leadership wants these cuts for deficit reduction, and I hope to hear today how they will be used. Instead, it would appear that the Federal employees and retirees are being asked to help pay for proposals in the Contract, such as the capital gains tax cut for the wealthy.

Why else would there be this insistence on pushing these cuts through along with the Contract proposals and before Congress has even set its deficit reduction targets for the next fiscal year? If these cuts are made now in order to pay for tax cuts for wealthy Americans, are Federal employees and retirees going to be asked to give up even more benefits later for deficit reduction?

I believe that these questions need answers, and not just answers that the Speaker or other leaders give, but answers that come from the whole House, voting to set spending and deficit reduction goals in the budget resolution. Until that happens, I believe the committee has no real basis for proceeding any further.

We have heard a lot in recent months, Mr. Chairman, about the new political leadership in Congress and its commitment to making good on its word to the American people. The Contract With America, although perhaps not well understood by the public, has certainly become a well-known symbol of that commitment to do after the election what was promised before the election.

This is as it should be. Elections, as well as everything we do in Congress, are about commitments and promises. But we also need to remember that the election of 1994 is not the first time Members of Congress have made commitments which they have promised to fulfill.

Congress made a commitment to all Federal workers in 1920 when they created the Civil Service Retirement System. That com-

mitment was reaffirmed in 1986, when Congress created a new Federal retirement program and gave workers a one-time opportunity to select the benefit program in which they would participate.

I cannot help but be reminded how vigorously Republican Members argued last week for the "takings" legislation that gives landowners a claim against the Government, even if they abuse the land in ways that threaten the environment and public health. Do these same Members not see that changing the rules for retirement in the middle of a worker's career is not a real "taking"?

It seems clear to me that the Republican leadership has a wholly different view when retirees and the elderly are "being taken" than when the taking involves their wealthy and corporate supporters.

Mr. Chairman, I do hope that these answers will become clear during the hearing this morning and that some of these answers will come forth.

I thank you for yielding me so much time.

[The prepared statement of the Hon. Cardiss Collins follows:]

PREPARED STATEMENT OF HON. CARDISS COLLINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Chairman, your letter of invitation to witnesses attending this hearing states that this Subcommittee has been "tasked" with finding ways to reduce the costs of the federal employees retirement programs.

My question is, who has tasked us with this responsibility? We have not acted on a budget resolution, as yet, which would identify spending and deficit reduction targets for the next fiscal year. At whose direction, therefore, are we being directed to cut federal retirement programs?

Last Friday, I got at least a partial answer to this question. My staff was told by the Majority that the Republican Leadership of the House has directed this Committee to cut $12 billion out of the projected costs of the federal retirement programs over the next five years. Furthermore, we were told that the Leadership has also directed the Committee to report the legislation by the middle of this month.

If the Committee fails to meet this deadline or if it fails to cut federal retirement costs by a full $12 billion, my staff was told that the Republican Leadership has said that the Budget Committee will make the necessary cuts with, or without our approval, in circumvention of the Rules of the House.

This is the second week of March. To meet this deadline, I can only assume the Chairman plans to bring before the Committee legislation to achieve savings of $12 billion in the federal retirement programs sometime next week.

It is, therefore, clear to me and I would think to the federal employee and federal retiree groups who are here today, that this hearing is nothing more than an "afterthought". Regardless of what is said today, federal workers and retirees should know that the Republican Leadership in the House apparently intends to force you to give up $12 billion worth of retirement benefits and or salary to pay for benefits.

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Furthermore, it is not at all clear that the Republican Leadership wants these cuts for deficit reduction. Instead, it would appear that federal employees and retirees are being asked to help pay for proposals in the Contract, such as a capital gains tax cut for the wealthy.

Why else would there be this insistence on pushing these cuts through along with the Contract proposals and before the Congress has even set its deficit reduction targets for the next fiscal year?

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This is as it should be. Elections, as well as everything we do in the Congress, are about commitments and promises. But, we also need to remember that the election of 1994 is not the first time Members of Congress have made commitments which they have promised to fulfill.

Congress made a commitment to all federal workers in 1920 when it created the civil service retirement system. That commitment was reaffirmed in 1986, when Congress created a new federal retirement program and gave workers a one-time opportunity to select the benefit program in which they would participate.

I cannot help but be reminded of how vigorously Republican Members argued last week for the "takings" legislation that gives landowners a claim against the government, even if they abuse the land in ways that threaten the environment and public health. Do these same Members not see that changing the rules for retirement in the middle of a worker's career is a real "taking"?

It seems clear to me that the Republican Leadership has a wholly different view when retirees and the elderly are "being taken", than when the taking involves their wealthy and corporate supporters.

I, for one, want to make it very clear, that I am totally opposed to raiding retirement programs for the elderly in order to give the wealthiest people in our country a huge tax break on their stock and other investment earnings.

I will, therefore, oppose efforts to have the Committee consider legislation making big cuts in federal retirement programs before the House has acted on the budget resolution.

Federal workers, federal retirees, and Members of this Committee, deserve to know how proposed cuts in retirement programs were derived and how the savings would be used. Then, and only then, does it make sense to have a hearing like the one being held today.

Mr. MICA. Thank you. I thank the gentlelady for both her participation today and for her questions. I might just take a second and respond.

I do come from a different realm than the political realm. I come from the business realm. When selected to chair this subcommittee, the first thing I had the opportunity to do was look at the balance sheet. If we look at the Federal retirement balance sheet, you see a $19 billion annual drain from general revenue into the retirement fund. You see a retirement fund where, if it was operated in the private sector in the manner it is operated in the public sector, people would go to jail for not balancing the account.

So I approach this as a business, and I see that we have a $1½ billion drain on the national Treasury each month, and something must be done to stem that loss. Now, there are two ways we can do that: We can wait for the budget cutters to come in and impose on these people and Federal employees an edict or a mandate and not have them part of the process; or we can have them, as I have chosen, come in before us today to help lead the process and see where we can do a better job of meeting that responsibility.

That's why I have met with the leadership. I've expressed my concern about getting this on a pay-as-we-go basis and not becom-

ing a burden on the taxpayers, nor bankrupting the system or the country.

All you have to do is pick up today's newspaper and look at what happened to the dollar and the lack of confidence in the dollar. Countries are just like corporations or individuals. When your spending gets so out of hand that there's no trust, that confidence is lost, and that's what is happening. And I don't want our Federal retirees to be victims of that process.

So here we have an opportunity to act, to take our own initiative. That's why I have called these hearings. I have met with leadership and expressed our concern. But we want the minority and we want these individuals to be part of the process so that we set the pattern and help develop the solution, so that we're not dictated to in this, and the whole House will act in that process.

Now I would like to yield to our vice chairman, Mr. Bass, for his opening remarks.

Mr. BASS. Mr. Chairman, I have no opening remarks at this time except to associate myself with your remarks that you just gave a minute ago. I think they are right on target.

Mr. MICA. Thank you.

I now yield to our ranking member on the subcommittee, Mr. Moran, the gentleman from Virginia.

Mr. MORAN. Well, Mr. Chairman, let's get some of this stuff out of the way here.

Mr. Chairman, I'm a little distressed, first of all, at what you said, and then that the vice chairman would agree with you. I hope that there are not other Members who would as well here, because it's simply not accurate. While we get along very well on a personal basis, this is going to create a terribly divisive situation on this subcommittee.

To suggest that someone would go to jail for the way in which the Federal Employee's Retirement System is being handled is really irresponsible. I can't imagine where you would come up with that. The fact is that the Federal Employee's Retirement System was reformed in 1986, and we are taking in about $62 billion a year, and we're only paying out about $36 billion a year.

You know, when it was reformed, it was the product of 2 years of intensive study. The employee representatives, the government representatives, people on both sides of the aisle participated in it. Senator Stevens really led the effort. It was very much a bipartisan effort. And the intent was different than this intent. The intent was to make whole the Federal retirement system.

I don't get a sense that the intent of this effort is to make the Federal retirement system whole, but rather to save money to pay for some, I think, irresponsible tax cut. I can't imagine why we would be cutting taxes with a $4 trillion debt, but that's something else, although the wisdom of that is certainly related to this, if that is the reason that is driving this kind of a hearing.

We don't need to fix the retirement system. And, in fact, it is in better shape than most retirement systems, although it is not as generous as most retirement systems. In most retirement systems, you have Social Security in addition to the pension plan, and people have, in a many cases, a more generous situation. In fact, they estimate that about 95 percent of people on corporate pensions

have a better situation because of the supplement of Social Security.

What we did in 1986 was to bring in Social Security, to essentially figure out a way to phaseout CSRS. And that's what we're doing. Now, if something needs to be reformed, I can't imagine that it's the FERS system, which has plenty of money and is well-funded and certainly doesn't create any unfunded liability, and CSRS is phasing out.

Now, one of the proposals that was suggested is to raise the retirement age, but yet that is wholly inconsistent with our downsizing effort where we're offering people $25,000 incentives, buyouts, to get them to retire early. And then we're going to extend the retirement age? The principal reason why those who did stay with CSRS did so was because they wanted the option of being able to retire after their years of service instead of a fixed date in terms of their age.

But we have a good system. If anything, we should be figuring out how to meet the contractual expectations that the Congress agreed to in previous years, because we haven't really done that.

We agreed that we would come up with locality pay that would make up for approximately a 30 percent difference between private pay and Federal pay. Thanks to Mr. Hoyer and many of the people on this panel, we have been able to come up with locality pay, but it's always at the expense of a cost of living increase, which, again, was supposed to be part of the Federal retirement system. We have now delayed Federal retiree COLA's until April. We're talking about making that permanent.

The 7 percent increase to 9 percent that has been proposed doesn't make sense. I looked at the numbers that the Congressional Research Service put together. I don't see any reason why you would do that. In effect, all that would be doing is putting a tax increase on Federal employees in order to pay for a tax cut for other people. That's all it is. It's an increased tax and a substantially increased tax, and it's in violation of all the agreements that were just established 9 years ago.

Excuse me, on CSRS, to increase it from 7 percent to 9 percent, I can't imagine that we would go back on our word to do that. On FERS, to cut the contribution from 5 percent to 3 percent, again, is in violation of all the agreements that have been made in the past.

So here we are, having a hearing, with less than a week's notice, on a program that affects millions of people. We did it right 9 years ago, fixed the system, did it after 2 years of effort, and now we start out with this assumption that there's some kind of wrongdoing in the management of the system and that there is an unfunded liability, which, in fact, there is not. I will put the numbers into the record to show that there is no unfunded liability.

We're going to have a contentious hearing, Mr. Chairman, if we're not going to agree that while people are entitled to their own opinions, they are not entitled to their own set of facts. I would hope that we would use the Congressional Research Service and the General Accounting Office and other reliable sources of information and not make comments that I don't think can be substantiated by the facts.

Those are some of the thoughts I wanted to share, Mr. Chairman. I hope we're going to give this a lot of thought and a lot of time and the kind of judgment we're capable of.

[The prepared statement of Hon. James P. Moran follows:]

PREPARED STATEMENT OF HON. JAMES P. MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. Chairman: At the outset, I would like to express how deeply frustrated I am over the way this issue has been, and is being, handled.

Last week, we received notice that the Subcommittee would convene today to conduct an oversight hearing on how to make the federal retirement system more affordable. Initially, we heard the hearing was to be held on Monday, March 6 from 1:30 p.m. to 5:00 p.m. and on Tuesday, March 7, from 9:30 a.m. to about 4:00 p.m. Then, on Wednesday of last week, we heard the Monday hearing was a legislative hearing on Congressional Retirement Plans. Then on Friday of last week we heard today's hearing is designed to lay the groundwork for legislation that will greatly increase the federal retirement contributions while decreasing the benefits. This is all under the guise of making the federal retirement system more affordable.

As your own talking points state, this legislation will be the first major federal pension reform legislation in over a decade. I think it would be appropriate to note the differences between that effort and this. When the Congress created the Federal Employee Retirement System in 1986, the last product of federal pension "reform", it held two years worth of forums, academic meetings, and hearings. These deliberations included scores of papers from academics, economists, and actuaries. There were intensive meetings among staff and experts. Informal task forces were established with experts from CBO, GAO and CRS. Representatives from federal employee unions and other interested groups were involved in every step. This effort was led by Senator Stevens himself in the Republican controlled Senate. Unfortunately, the Reagan Administration was largely a silent partner in this effort and participated only minimally in drafting the new FERS plan.

Now, in the Republican controlled House of Representatives, we claim we are again trying to "reform" the civil service retirement system despite the fact that we fundamentally reformed the system in 1986 with the creation of FERS. To this end, there have been a number of task force meetings among Republican staff, one hearing where federal employee groups are allowed to address a still undisclosed plan, and a mandate to cut $12 billion. It is important to note that this hearing, and this "reform" effort is not structured to examine or address current problems or complaints with the current system. In no way have we received any criticism or concern about FERS. This current call for reform is actually only a thinly veiled attempt to pick the pockets of federal workers in order to pay for the Republican tax cut that nobody really wants, or really needs, or really thinks is going to pass the Senate.

On the first day of this Congress, we abolished the Post Office and Civil Service Committee and placed one half of its jurisdiction and authority on the shoulders of this Subcommittee. Today, we are beginning the process of abdicating that authority and our responsibility to fully evaluate and analyze the issues under our jurisdiction. I understand this abdication will be complete next week when the full Committee marks up a "Federal Service Reform Act" that has never been debated, discussed, or considered by this Subcommittee.

So today we have this hearing designed to lay the groundwork for legislation attacking the federal employee and federal retirement system under the misused moniker of reform. I refuse to go along with this effort. Instead, I want to focus on the facts of what federal retirement is and is not. I would also like to dispel some of the myths about federal retirement that have been circulating.

The underlying assumption driving today's hearing is that federal employee retirement systems are unaffordable. By what measure are they unaffordable? The current system, redesigned by the Congress in 1986 after two years of deliberations, works very well. It is comparable to private pension plans and fits the modern workforce management needs of the government. The pensions are not overly generous and the cost is low. Any talk of reforming CSRS is moot since the system was closed in 1984.

I fear that some of the proposals that are being seriously considered would undermine the ability of the government to move its workers effectively through a career and into retirement. We are approaching the whole issue of pension reform in a haphazard manner—reduce COLAs, raise the retirement age, and increase federal contributions. In no way have I seen any serious examination of the system as it

currently works or any assessment of what we want from our federal retirement system.

We must remember that as employers it is incumbent upon us to pay our employee's while they are working and deferred compensation in the form of pension when they retire. Moreover, we must have a pension system that affords employees an opportunity to retire voluntarily as their productivity declines, but gives the government the ability to retain those senior employees on whom we rely to keep the government working.

When discussing federal retirement, it is important to remember that we are talking about two different plans. The first is the Civil Service Retirement System created in 1920 as a workforce management tool. This system is different from private pension in two important ways. It is a substitute for Social Security rather than a supplement and, unlike 95% of the private pension plans, it is financed in part by contributions from those employees covered. This contribution is 7% of the employee's income.

In 1986, the Congress created the federal alternative to the private pension system with the establishment of the Federal Employee Retirement System. Under this plan, the retiree receives a small pension from the federal government, Social Security, and a return from his contributions to the Thrift Savings Plan, the federal equivalent to the 401K. Under FERS, the federal annuity is a supplement to Social Security rather than a substitute. The federal employee, however, is still required to contribute to his pension. The contribution to FERS is set at .8% of the employees income. This contribution, plus the payment to Social Security equals the total contribution to CSRS.

There has been a great amount of confusion about what is the proper employee contribution level for CSRS, and I am concerned that much of that confusion is rising from this Committee. The 7% contribution level was set in 1969 when the cost of the pension system was about 13.9% of the payroll. This is the source of inferences that Congress intended for employee contributions to pay half the cost of the pension system. It is important to remember, however, that this assessment was based on using a static model of the program's cost. This model includes estimates of system costs exclusive of future federal pay raises, retiree COLAs and changing interest rates.

The static normal cost of the program has not be estimated since 1969. Arguably, if the static cost of the system were re-estimated today, it would be lower than 14%, in part because interest rates earned on the retirement trust fund have increased. However, today we estimate the cost of the pension system using a dynamic model. This model takes into account the impact of federal pay raises, retirement COLAs, and changing interest rates. This model is always changing as the dynamics of the situation change. In fact, the dynamic cost estimate should be lower than the figure currently used since Congress has not given federal workers full pay raises in the past two years and reduced the federal COLA in 1993. In 1979, the dynamic normal cost of the system was about 38%.

In addition, there has been some talk about the pending threat of the unfunded liability of CSRS. It is important to remember that FERS has no unfunded liability. The question we must ask when looking at the "threat of the unfunded liability" is "what threat"? The unfunded liability has no effect on taxpayers or on the deficit. It never will. The unfunded liability of any retirement plan is the total liability that would be incurred if the plan shut down tomorrow and had to pay all its past and current federal workers their full pensions at once. It is important to keep the unfunded liability in private pension plans low because private companies can and do fail. This is not an issue with federal retirement, however, because the federal government will not close down and go out of business. If it does, the least of our concerns will be paying federal pensions.

If the unfunded liability is such a concern, I would suggest that the Committee should seriously examine the Administration's proposal which provides a sound approach to full funding of the CSRS without raising employee payroll withholding or increasing the deficit. Instead, the Republican majority is looking at only increasing the employee contributions to the pension system. You cannot honestly argue that putting an additional $5 billion into the CSRS trust fund over five years will somehow magically eliminate an unfunded liability of $550 billion. This is intellectually dishonest and absolutely poor public policy.

So when we talk about raising the contributions to CSRS and FERS, we should not speak in terms of original Congressional intent or reducing the unfunded liability. We should not claim that we are seeking to bring federal retirement in line with private sector retirement—we did that in 1986. Instead, we should talk in terms of a tax increase because that is all the Republican proposals are. Even CBO has scored them as such.

Mr. MICA. I want to thank the gentleman for his comments. I see there are many areas that we agree upon; there are several areas that we disagree on.

Mr. MORAN. Which ones were those we agreed on? [Laughter.]

Mr. MICA. About not touching some of the COLA's and other things that have been promised to Federal employees, I think we could work together. But the intent of this hearing is to begin this process. We may disagree about the status of the system, but I think we have the same intent to work together to try to find solutions.

Again, it's the prerogative of the Chair to go forward with these hearings. In that regard, I want to call on Mr. Gilman for his comments.

Mr. GILMAN. Thank you, Mr. Chairman. I'll be brief. I want to thank you for holding these hearings on a very critical issue and to bring together some very knowledgeable panelists.

Although I understand that every expenditure in our Federal domain is going to be considered in our efforts to try to control the Federal budget deficit, I hope that we can embark on these efforts while honoring past commitments we have made to our Federal employees and the reforms that we undertook back in the last two decades to try to bring the pension system within a reasonable area.

I think we should bear in mind, too, that when we take into consideration the wages of our Federal employees along with the pensions, and put them both together, they are still much less than the private sector out there. So often we hear the criticism of these fat pensions and high salaries. When you put them all together, studies show that they are still less than the private sector. I hope that our committee, as we review all of these, will bear that in mind.

I regret I have to chair a meeting down the hall, and I will leave our staff behind to closely examine your efforts.

Thank you, Mr. Chairman.

Mr. MICA. I thank the gentleman. I yield now to Mr. Mascara.

Mr. MASCARA. Mr. Chairman, I must say right at the start that I'm very saddened that the first order of business this subcommittee is apparently going to be asked to deal with is possibly cutting Federal employees' retirement benefits.

As my colleagues on the committee know, before coming to Congress, I served as a county commissioner in Washington County, PA, for 15 years. I always worked to have good relations with the county employees. I faithfully negotiated with their unions to set fair wages and to ensure they received a decent benefit package, including pension benefits.

If the county ran into budgetary problems, as certainly was the case sometimes, my fellow commissioners and I would sit down and carefully go over the spending priorities. We would have to decide where we could cut spending and where we could scrimp and save. But we did not—we did not—automatically take our budget problems out on our employees. I am troubled that this may be exactly what we're going to be asked to do in the very near future.

Until late yesterday afternoon, when my staff procured a copy of talking points prepared by the Republican staff about Federal retirement reform, rumors abounded on our side of the aisle regard-

ing the magnitude of the cut: Would it be $25 billion? Some said $17 billion. If we can be grateful for something, the talking points used a lower number, $12 billion, and further disclosed that the markup could come as soon as next week.

What I do not understand, Mr. Chairman, is this is supposed to be taken out of a retirement system that currently has a trust fund surplus of $340 billion, rising to an estimated $366 in the current fiscal year. And I understand what you said, Mr. Chairman, about the half trillion dollar unfunded liability. But somehow we need to reconcile that.

Since being sworn in in January, I have learned one thing: Federal trust funds are not really dedicated nor untouchable. I'm beginning to wonder if they are worth the paper they are written on. Speaking of going to jail, back where we live, if you misuse a trust fund, you do go to jail. And that refers to the Social Security system, the highway trust funds, and other funds.

So I guess I'm still in the learning process here in Washington, DC, being a freshman. But some things never change, apparently.

First, we could not protect the Social Security trust funds from being included in the balanced budget amendment. Then it was decided that the highway trust funds would be used for part of the forthcoming fiscal 1995 recision cuts. Now we are going to do the same thing to the Federal retirement system trust fund. Trust funds. Trust funds. Trust funds. It's a misnomer and an oxymoron in Washington, DC. There's an internal contradiction about the meaning of "trust funds."

I think this is simply the wrong way to run our fiscal railroad. I want to make it clear that I am not against getting Federal spending under control. My constituents sent me here to get the Federal budget on a more sane course. I firmly believe spending must be cut, but I do not think it should be done haphazardly, without a definitive budget plan.

As many of my colleagues know, I am a public accountant. I know how to read the Government's monthly Treasury statement. Maybe it is my devotion to balance sheets, but I do not think we should be discussing how we're going to cut the Federal retirement system or any possible budget cuts until we have a budget—a budget, a plan that tells us exactly how much is going to be cut and for what purpose.

We've got the cart before the horse. We have none of that before us today. If the press is getting its information correctly, we will not have it for almost another 2 months. The Speaker, according to the media, is predicting a budget resolution will not be brought to the floor of the House until mid-May.

That still leaves us with the question of why are we being asked to consider savings in a Federal retirement system now? The answer, I'm afraid, is to help pay for tax cuts that the majority party will be proposing to the committee, the Ways and Means Committee, at the end of this month.

Over the past several weeks, committees throughout the House have been facing a similar situation, making cuts in programs ranging from rural health care, transition grants, to the school lunch program, to the HUD Section 8 housing program, to the Veterans Administration health care budget, just to name a few.

Now we are going to go after the Federal retirement system based on a vague perception that it is too generous. This is a system that, since 1982, has already contributed $40 billion to deficit reduction. What about the countless other ways the Federal Government spends money, from the Department of Defense to flood insurance? Do they not also count?

I think it would be more appropriate to discuss potential reform of the Federal retirement system after my colleagues on the other side of the aisle have laid out their complete budget plan for the Nation.

I also would like to take a moment to comment on our plans to review Members' retirements later this week. Now, as someone who is 65 years old—I probably don't look that old, thank you—and just elected to Congress, I have no illusions that I will ever collect much of a retirement from my service in the Congress. The facts are that more than half of the Congress has been elected since 1990. With the present rate of turnover and the press for term limits, far and few between will ever receive a large amount of benefit to write home about.

Having said that, I sincerely hope that no one is going to make the argument that just because Members are elected to serve in this body that somehow they do not deserve a pension. I would also hope we are not going to disparage the pensions received by prominent former Members who, in many cases, dedicated more than 25 years of their lives to serving this Nation.

The reality is that executives working in the private sector, bearing similar levels of responsibility, receive much more generous pensions. Forbes and Business Week regularly run articles detailing the stock options and the parachute deals that they enjoy. These retired Members contributed much to our country, leaving it a better place for their service. I say, let them enjoy their private lives in the peace and quiet that they have rightly earned.

Finally, I am pleased that the chairman has invited the unions and organizations representing Federal employees and also their managers here today to testify. I know they will add some balance and reality to the issues being addressed. I look forward to listening to your remarks.

Thank you very much, Mr. Chairman.

Mr. MICA. I thank the gentleman from Pennsylvania and now yield to Mr. Burton.

Mr. BURTON. Thank you, Mr. Chairman.

I don't have much to say today. I'm here to listen and learn, and I want to look at the statistical data that the committee will be giving to each of us. I think it's very, very important that while we're trying to balance the budget and cut Federal spending, we don't break faith with people who put their faith in us, and if we do have to make economies, that we take a very, very hard and long look at the statistical data to make sure we're doing the right thing.

So I'm anxious to hear from my colleagues. I may have to leave here, but I know I'll be contacted by some of my friends out there in the audience. I was on Post Office and Civil Service for a good many years, so I'll look forward to talking with them. But this is something that really needs to be studied thoroughly before we make this decision.

While I know we're under some time constraints, I think, even though we're under those time constraints, we ought to step back and take a real, long, hard look at this because it does affect so many millions of people's lives in this country.

I am a fiscal conservative, and I do want to make budget cuts, and I do want to get a balanced budget in this country, but we have to look at the real things that we're going to be considering, and that is people's lives and how they are going to have to be impacted by what we do here. So we need to be very, very thorough and careful in looking at these figures and statistics before we make a final decision.

With that, thank you, Mr. Chairman, for yielding to me.

Mr. MICA. I thank the gentleman for his comments and yield to the gentlelady from Maryland, Mrs. Morella.

Mrs. MORELLA. Thank you, Mr. Chairman. I appreciate your scheduling these 2 days of hearings on the Federal retirement system and your commitment to fairness, and welcome the opportunity here for Federal employees and retirees. I think this is critically important.

As you know, I have, during my entire tenure in Congress, chosen to serve on what was the Post Office and Civil Service Committee, now the Civil Service Subcommittee, because I believe very much in our Federal employees who have made a commitment to public service. I think we should always bear that in mind.

Now, as we look at the Federal retirement program, equity among retirees' and employees' groups must be the guiding principle. We simply cannot take any actions that unfairly target Federal and postal employees and retirees while protecting other groups.

We must also consider the impact of any changes on the morale of employees, the retention and recruitment of a talented and experienced Federal workforce, and the ability of our Government to continue to provide the many vital services performed by Federal employees. We tend sometimes to forget that.

The past decade has been a seesaw for Federal employees and retirees, and they have never been able to have any confidence in the permanence and stability of their retirement system. The formation of FERS was supposed to bring an end to reform efforts and stability was supposed to have been achieved. But, unfortunately, as a result of the budget deficit and the size of the Federal retirement system, CSRS and FERS are all too tempting targets for cuts.

We should be guided by the best interests of the retirement system, and I urge my colleagues to exercise extreme caution when looking to this system, especially for further savings. I think we must remember that we have made commitments and they should be honored. We must also remember that Federal employees and retirees have already borne a significant burden of cuts over the past decade.

I look forward to hearing from these people, who know what this retirement system is like personally and the contract that was made.

I thank you, Mr. Chairman.

Mr. MICA. I thank the gentlelady and yield to the gentleman from Virginia, Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman.

I also appreciate the open mind that you are bringing to these hearings and allowing the various Federal employee and retirement groups to come before us and hear their views before any kind of decisions are made.

I sit on the full committee, not this subcommittee, but on the full committee and have a very keen interest in this particular topic. One of my concerns has been expressed earlier by some of the other members, and that is the fact that some of the proposed tax cuts, both from the administration and from congressional leadership, seem to be driving this process. I would just note that I don't think it can or should drive this process. I think what is fair to the employees and retirees is what should drive it.

As I have held a number of town meetings in my district over the last couple of weekends, the overwhelming sentiment is to bring the budget closer to balancing first, before we start looking at major cuts in taxes. That's the sentiment that I'm getting from my constituents.

I think we all recognize the need to bring Federal spending in line with Federal revenues, but it's important to recognize that Federal workers already have taken a large hit, almost annually, as you go back through the 1980's and the early 1990's, and the devastating effect it has had on Federal morale.

Now, as further cuts are required, these same employees are going to be facing their loss of jobs, and it's not fair to take a look at those that are left standing after the downsizing and take another bite out of them with further cuts to Federal employees across the board. I think we need to be aware of that.

In addition to that, as far as the retirees go, our retired civil servants, I think it's great that the Republican and Democratic leadership have told older Americans that Social Security is going to be protected, but we need to understand that many, many CSRS annuitants at this point don't get Social Security and have worked very loyally for this government for many years, and they deserve the same protection. We should treat them equally.

I think the last administration made a mistake last time, very candidly, in deferring COLA's for Federal retirees and singling them out. I think that our Federal retirees were heard at the ballot box the last time, and I think those cries for equity should not go unheeded by this committee.

So I'm pleased to be here today and look forward to the testimony. Once again, Mr. Chairman, I appreciate your holding these hearings and allowing everybody to be heard.

Mrs. COLLINS OF ILLINOIS. Mr. Chairman.

Mr. MICA. I thank the gentleman, and I yield to the gentlelady for a unanimous consent request.

Mrs. COLLINS OF ILLINOIS. I have to go to the Rules Committee, but I ask unanimous consent that my entire statement be made a part of the record, and I intend to come back as soon as I finish there. Thank you.

Mr. MICA. Without objection, so ordered.

If there are any additional statements, we will leave the record open and, without objection, we will also enter them into the record.

We now have a rather lengthy list of panels and panelists to hear from. I would like to go ahead and begin by calling our first panelist, Mr. Charles R. Jackson, who is president of the National Association of Retired Federal Employees.

Mr. Jackson, could you come up? Mr. Jackson, it's the custom and tradition of the Government Reform and Oversight Committee to swear in the panelists. If you wouldn't mind, would you stand?

[Witness sworn.]

Mr. MICA. Let the record reflect that the witness answered in the affirmative.

Again, welcome, Mr. Jackson, and if you will proceed, hopefully with a summary of your testimony or any other comments that you might like to make.

STATEMENT OF CHARLES R. JACKSON, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES (NARFE)

Mr. JACKSON. Mr. Chairman, I am Charles R. Jackson, president of the National Association of Retired Federal Employees (NARFE). I appreciate the opportunity to appear before you today on behalf of NARFE's one-half million members.

NARFE members share the concerns of millions of other Americans with the enormous Federal debt. We believe Congress' determination to reduce this burden is not only commendable but essential. We recognize that, in attempts to reduce Federal spending, our retirement program will be subject to review. However, if anyone believes there are major cost savings to be found in these programs, without breaking the contract current and former Federal workers have with America, we believe they are wrong.

Federal workers and retirees have consistently indicated a willingness to do their fair share to reduce the deficit, and they have done so. Over the past 10 years, reductions of civil service COLA's alone have accrued savings of some $40 billion. Year after year, the Federal compensation has been chopped and whittled in the name of deficit reduction, yet deficits have continued to soar.

For years, Federal workers and retirees have been criticized as obstacles to deficit reduction, never credited with any role in effecting a solution. Many retirees have lost faith in the assurances of their government that today's deficit problem will be tackled in a fair and equitable way. This is especially true when we are confronted with a list of proposals to reduce our COLA's, while Congress appears almost unanimous in guaranteeing that Social Security COLA's will not be touched. We cannot understand why the same guarantee has not been extended to Federal retirement benefits.

Congress itself initiated the principle of COLA equity between Federal retirement and Social Security in 1984 by delaying our scheduled COLA for 7 months and changing the formula for computing the adjustment. This change saved $15 billion over the past 10 years. A year later, the Gramm-Rudman-Hollings Act canceled our 1985 COLA completely, but the Social Security COLA was not affected. That COLA cancellation has accrued almost $5 billion in savings to our retirement system.

In 1986, Congress remembered the principle of COLA equity and amended the Gramm-Rudman-Hollings Act to treat Federal

COLA's the same as Social Security. COLA equity remained until the 1993 Reconciliation Act broke the equity link by delaying our COLA for 3 months. Today, Social Security recipients have received three benefit checks reflecting last year's rate of inflation, while Federal retirees and survivors have not yet received the first check with that adjustment.

Civil retirees have also been penalized for their choice of employer by the Social Security Windfall Reduction and Government Pension Offset provisions. These two provisions reduce or deny both earned and survivor Social Security benefits to CSRS-covered Federal retirees. These penalties result in the loss of Social Security dollars, which have full inflation protection and are tax-exempt, or at least tax-deferred.

Mr. Chairman, we know that, when the Congress looks for short-term savings, our promised COLA dollars are the most tempting target. I would urge this committee to remember that those same COLA dollars are very important to the income security and peace of mind of today's annuitants. Proposals to cancel, delay, defer, or reduce COLA's undermine the income security today's retirees thought they were contributing to during their working years.

Of the COLA options presently circulating, NARFE is most concerned about means testing proposals. Means testing our COLA's ignores the intent and eligibility criteria of the Federal retirement system. Means testing is not part of the eligibility criteria; therefore, why should it become a criterion for COLA's? Means testing also penalizes annuitants who were successful in their careers and those who spent full careers working of the government. In sum, means testing destroys the career incentive.

Some have suggested the CSRS COLA be less than the CPI and deferred until age 62. But it must be understood that a full COLA from the time of retirement was a major factor for many CSRS workers in deciding whether to stay in the old system or transfer to FERS. Changes now would renege on a key factor of that decision when they are powerless to reconsider options.

Some believe NARFE and other Federal organizations do nothing but object to every suggested change to our retirement program. This is not the case. Almost a decade ago we worked long and hard with Congress to develop a new Federal retirement program that was more like the private sector.

In closing, I would like to read you an excerpt. I cannot think of a better way to illustrate how benefit cuts will affect the people that NARFE represents. I would like to quote a letter written by John Fleming, a retiree from the U.S. Department of Agriculture Research Service in Beltsville, MD.

> When I was young and I had life and talent to bargain with, I was offered a salary plus retirement with a cost of living adjustment to work for the Government of the United States of America. Now that my life and talent has been used, it is not just to lower the promised benefits years into retirement when I certainly cannot take my life back.

Mr. Chairman, thank you again for this opportunity to present NARFE's views. I would be happy to answer any questions.

[The prepared statement of Mr. Jackson follows:]

Prepared Statement of Charles R. Jackson, President, National Association of Retired Federal Employees (NARFE)

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NARFE members share the concern of millions of other Americans with the enormous federal debt. We believe Congress' determination to reduce this burden is not only commendable, but essential. We recognize that in attempts to reduce federal spending our retirement programs will be subject to review. However, if anyone believes there are major cost-savings to be found in these programs without breaking the contract current and former federal workers have with America, we believe they are wrong.

Federal workers and retirees have consistently indicated a willingness to do their fair share to reduce the deficit. And, they have done so. Over the past ten years, reductions of civil service COLAs alone have accrued savings of some $40 billion. Year after year, the federal compensation package has been chopped and whittled in the name of deficit reduction, yet deficits have continued to soar. For years, federal workers and retirees have been criticized as obstacles to deficit reduction, never credited with any role in effecting a solution.

Many retirees have lost faith in the assurances of their government that today's deficit problem will be tackled in a "fair and equitable" way. This is especially true when we are confronted with a list of proposals to reduce our COLAs, while Congress appears almost unanimous in guaranteeing that Social Security COLAs will not be touched. We cannot understand why the same guarantee has not been extended to federal retirement benefits.

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That COLA cancellation has accrued almost $5 billion in savings to our Retirement System. In 1986, Congress remembered the principle of COLA equity and amended the Gramm-Rudman-Hollings Act to treat federal COLAs the same as Social Security.

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But, it must be understood that a full COLA from the time of retirement was a major factor for many CSRS workers in deciding whether to stay in the old system or transfer to FERS. Changes now would renege on a key factor of that decision when they are powerless to reconsider their options.

Some believe that NARFE and other federal organizations do nothing but object to every suggested change to our retirement program. That is not the case. Almost

a decade ago, we worked long and hard with the Congress to develop a new federal retirement program that was more like the private-sector.

The crowning achievement of that work was the Federal Employees Retirement System. Today, FERS has been tested and it has met its goals. We believe this reformed federal retirement plan should be left intact.

NARFE understands the Committee is also considering a proposal to require federal employees to increase their retirement contributions by as much as 2 percent.

We cannot accept such an increase as necessary to assure the fiscal integrity of the CSR Fund. Would not higher contributions be a tax increase on Federal workers at a time when Congress is considering a "middle class tax cut?" Instead of increasing employee contributions, there is an alternative which would decrease the unfunded liability in the Retirement Fund.

A proposal in the Administration's FY 1996 Budget would charge Federal agencies the full cost of the employer's share of CSRS benefits. An increase in the agencies contributions would not increase the deficit since it is an intra-governmental transfer of funds.

NARFE supports the concept of full accrual financing, but only if discretionary caps are adjusted to allow for the additional employer cost.

As we review the budget for savings, we must consider both current and future employees. Today's workers are entitled to be able to plan for their retirement with some sense of trust. The government should also fully consider the affect of any changes on tomorrow's employees so that the best and the brightest are attracted to, and stay in, federal service.

I cannot think of a better way to illustrate how benefit cuts will affect the people that NARFE represents than by quoting a letter written by, John F. Fleming, a retiree from the U.S. Department of Agriculture's Research Service in Beltsville, Maryland:

"When I was young and I had life and talent to bargain with, I was offered a salary plus retirement with a cost of living adjustment to work for the government of the United States of America. Now that my life and talent has been used, it is not just to lower the promised benefits years into retirement when I certainly cannot take my life back."

Mr. Chairman, thank you again for this opportunity to present NARFE's views. I would be happy to answer any questions.

Mr. MICA. Thank you so much, Mr. Jackson, for your attendance, your testimony, and your participation today.

First let me say that no one is more committed to trying to make certain that we keep our contract with our Federal retirees than the Chair of this committee. One reason, as I said in my opening statement and other remarks, that we're holding this series of hearings is to try to come up with some way to help us really limit some of the losses that are being underwritten from the general Treasury and revenue now exceeding \$1½ billion a month, \$19 billion annually.

One of the concerns that I have is that the administration has proposed 272,000 cuts of employees. The other side of the Congress is looking at maybe even 500,000, maybe eliminating 25 percent of the Federal workforce. Now, if you take those kinds of numbers and you also look at where you would have the downsizing, you are going to impact the CSRS system. More than likely, you're going to lose more folks by getting into the retirement mode in this process.

So I think there is going to be even more pressure on the CSRS system. The gentleman from Virginia is correct that we did come in and make changes and that FERS is sound, but we're going to have more pressure and possibly even more deficits from an obligation on the general revenue.

Also, I agree with you that we shouldn't cut benefits. So we have to look at the options, and the options start to boil down to increasing the employee contribution, which has remained the same, as I understand it, since 1969, or possibly adjusting the CPI in some

way that you can have across-the-board equity, that would affect Social Security, that would affect Federal retirees and others.

Now, when we get down to a couple choices like that, my question is, what do you think we should do?

Mr. JACKSON. Well, we do not necessarily agree that the contribution should be increased. We would seriously question the necessity for that at this particular time. We believe that the FERS system that was created 9 years ago provided for a sound system now in accordance with many in the private sector. We do not believe that increasing the contribution would necessarily increase the fiscal integrity of the CSR fund.

I guess my question would have to be, would not the higher contributions be, in effect, a tax increase on Federal workers at the very time that Congress is considering a middle class tax cut?

Instead of increasing the employee contributions, I would think that you might want to take a look at the unfunded liability in the retirement as proposed in the administration's 1996 budget. In that particular proposal, for some of you who may not have read it too closely, it calls for a charge to Federal agencies against the full cost of the employer's share of the CSR benefit. An increase in the agency's contribution would not increase the deficit, since it's an intergovernmental transfer of funds.

We would support the concept of full accrual financing but only if discretionary caps are adjusted to allow for the additional employer cost.

Mr. MICA. Well, I appreciate what you're saying, but really that ends up to be more of an accounting move, and you still end with an obligation, a general obligation, being paid by the taxpayer to underwrite the actual losses, and it doesn't solve our problem.

Again, we have a real outflow of $1½ billion a month, $19 billion a year. If we shift that from the way it's now accounted to agencies, we're not really addressing the problem of the shortfall.

Mr. JACKSON. Well, as you know, also, there is a bill that has been introduced to take the dedicated trust funds of the retirement system off budget. That has been floating around here. I guess my question would have to be, since Social Security trust funds are off budget, most of the people who are Federal retirees would like to ask the question, why are the dedicated trust funds of civil service not off budget?

This is something that we feel very strongly about, having been Federal workers for all these years. All that we're saying and that I have emphasized since I took over in January is, the use of the words "fair and equitable treatment." We are not under the Social Security system, yet that system is treated differently.

It has come to the point that many of the Federal retirees have come to the conclusion, was it advisable to work for the Federal Government all those years? They did what they thought was right in working for the Federal Government. Now they find that each year we come back up here and have to testify to try to protect the thing that we felt that we were working for for 30 years.

Mr. MICA. I thank you again for your testimony and offer assurance that the Chair is supportive of being equitable in whatever we do, but also committed to looking for some way to do a better job in meeting our fiscal responsibility.

With that, I will yield to the gentleman from Virginia.

Mr. MORAN. Thank you, Mr. Chairman.

I first want to emphasize, when we talk about some kind of unfunded liability, that, in fact, in fiscal year 1993 the Federal Government fund for Federal retirees took in $62.2 billion and paid out $34.9 billion. The FERS Program is fully funded, and it's fully funded because of the changes that were made in 1986. The CSRS plan, as we know, is phasing out. The second point is that 95 percent of the private pension plans don't even require an employee contribution as we do.

But let's give you an opportunity to point out what your constituents have been most articulate and emphatic on, Mr. Jackson, and that is the difference between Social Security and major corporate retirement plans, because I have heard from NARFE consistently that all we ask is that Federal retirees be treated like people in the private sector who can rely upon Social Security, who don't have to pay taxes on all their Social Security income, and people who have worked for large, private corporations with their pension fund.

So, just briefly, tell us the difference between the security the Federal Government offers its retirees and what large corporations offer theirs.

Mr. JACKSON. Well, there was recently someone who testified up here on the Hill, pointing out that the difference—and they indicated that 600,000 Federal jobs could be done away with today—and they indicated also in their testimony that Federal retirees had such a wonderful health plan, that we didn't pay anything. There is a misconception. We do pay.

When I retired from the Federal Government, I went to work for the hotel industry. In the hotel industry I had many benefits that I never had as a Federal worker. My insurance was completely paid. I paid into the Social Security system, although I did not stay in long enough to draw from it. But we had many benefits in that.

Now, when it comes to taxation, from the day that I retired, I started paying income tax on my Federal income retirement, from dollar one. If you take a look at the tax structure in the States and the Federal tax structure, when you draw Social Security, you are not taxed on that Social Security until about $12,000.

We have prepared a chart that we sent up here, showing the difference in a couple that is making approximately $25,000 in Federal income as a result of a retirement annuity and are paying about $3,000 Federal tax, but that same couple that's on Social Security, drawing Social Security, but with outside income and interest, is paying no Federal taxes. And this we object to.

That's the difference when we say that we would like to be treated fairly. We have always said that the tax treatment between the Federal retirees and someone who is drawing Social Security is far inadequate. It is not right.

Mr. MORAN. So it's the tax treatment plus the fact that people in the private sector get their corporate pension plus Social Security.

Mr. JACKSON. Exactly.

Mr. MORAN. Thank you, Mr. Jackson.

Mr. MICA. I thank you.

I yield now to the chairman of the full committee. Mr. Clinger, did you have any questions?

Mr. CLINGER. No questions.

Mr. MICA. OK. Then we will yield to the vice chairman, Mr. Bass.

Mr. BASS. Thank you very much, Mr. Chairman.

Thank you, Mr. Jackson. I am intrigued by a comment that you make on page 2 of your testimony, in which you say, "In fact, over the past 10 years, reductions, delays, and cancellation of civil service cost of living adjustments alone have accrued savings of some $40 billion." Can you tell me what those savings are?

Mr. JACKSON. Yes, sir. That's a GAO study. We would be glad to furnish you those figures. They were also quoted by Mr. Mascara earlier today.

Mr. BASS. My second question is, the next sentence says, "And those savings multiply when reductions in pay." When was the last time Federal employees took a pay cut? You say reductions in pay occurred during this period of time. "Those savings multiply when reductions in pay." What does that mean?

Mr. JACKSON. Well, what we're referring to, basically, is reductions in our COLA, which, really, if you're a Federal employee and you're working, you consider that as a part of your compensation package.

Mr. BASS. So you consider a COLA to be a form of pay, of Federal pay?

Mr. JACKSON. When we were employed we considered that a future—when we retire. Yes, sir.

Mr. BASS. Do I understand you correctly, Mr. Jackson, that you are, in essence, requesting a form of COLA equity with Social Security?

Mr. JACKSON. Yes, sir.

Mr. BASS. I don't have any further questions, Mr. Chairman.

Mr. MICA. I yield to the gentleman from Pennsylvania.

Mr. MASCARA. Thank you, Mr. Chairman.

I resist the temptation to go on hyperbole. And I'm not totally familiar with both systems. I have a fundamental understanding of civil service and the reform that took place in 1986, but could someone—the answer could come from anybody—when that reform took place, did anybody estimate the timeframe in which this reform would make this pension plan whole?

Did anybody say—I understand we have savings—we have a surplus, current surplus, of $340 billion; it looks like another $26 billion going in this—did anybody say, in 1986, we have a plan, and by the year 2000, 2020, that that plan would——

Mr. JACKSON. I was not a part of that plan, but it is my understanding that there was a cost figure anticipated at that particular time.

Mr. MASCARA. I always—and I say this rhetorically—I always thought that a pension plan was a contract between two parties, and if both parties kept the agreement, that somehow that could not be broken. Of course, that gives a new meaning to "it would take an act of Congress." So apparently, if Congress doesn't like the deal they made, they can overturn that deal.

Do you have any legal remedy to what's happening here, the attempting to cut and break a contract? Is there a legal remedy?

Mr. JACKSON. I guess the legal remedy would be to enter into litigation. And I can tell you that I have letters crossing my desk every day from members who object to things that Congress has done, and they think that that is the easy way, to file for litigation. I do not look at it that way. I'm not a controversial individual. I would like to work with Congress. I would like to negotiate and be a part, such as you're doing today, be a part of talking at the table in any changes that are made.

But, yes, I guess there are remedies.

Mr. MASCARA. I was touched by the gentleman who wrote that letter, who is now in the twilight of his years, who gave his best years to this government.

Mr. JACKSON. Yes. That's right.

Mr. MASCARA. And somehow now they're being treated as second-class citizens. And that you couldn't belong to the Social Security system back then, that that was your sole source of retirement.

Mr. JACKSON. Yes.

Mr. MASCARA. And that all of those employees who are about to retire or who are now retired planned—planned the rest of their lives on a pension, and you mean to tell me that this government now wants to go back and take money out of that pension, cut your pension? That's incomprehensible.

We found a way to bail the savings and loan out. We have the Pension Guaranty Corporation, whatever that is, and we bailed those people out. You mean to tell me we can't bail our own employees out? Someone is going to have to explain that to me.

Mr. MICA. Did you want to respond?

Mr. JACKSON. No.

Mr. MICA. I thank the gentleman from Pennsylvania. I will now yield to the gentlelady from Maryland, Mrs. Morella.

Mrs. MORELLA. Thank you, Mr. Chairman.

I appreciated your very articulate statement, Mr. Jackson. I particularly valued the fact that you did something I would have asked you to do had you not already prepared it in your statement.

You recounted the times that the Federal retirees have suffered. I mean, you've gone through what the cuts have been, chronologically, which I think is important for this committee to recognize, whether you're talking about 1984, with the delay in the Federal COLA for 7 months, 1985; the COLA that was completely eliminated for that time, but yet the Social Security COLA was not; the fact that the principle of COLA equity was amended in 1986, but that was until 1993, when, again, there was the inequity that you talk about with the COLA payment.

You mentioned the Social Security Windfall Reduction and Government Pension Offset for those people who may have worked for the Federal Government and also gotten Social Security. And the annuitants who are being penalized, you point out accurately that it's predominantly older women, because of the fact that they cannot collect the government annuity, because of their own work, and the Social Security survivor benefits.

So I just think it's important that, as we look ahead for the future of our retirement system and think about whether it's worth

doing any tax cutting at this particular time, that we reflect on what the past has pointed out. And I guess that, looking at your testimony and my close working with NARFE, I think it's the principle of equity that you keep pushing, that this is something that we must always remember, a commitment as well as equity.

Mr. JACKSON. Yes. Absolutely.

Mrs. MORELLA. Am I regurgitating?

Mr. JACKSON. We feel very strongly that that—and I think that our members, in the letters that you—as constituents—I think that that probably is prevalent in most of the letters that you receive, that they—I started to work right after I came out of the Army. And by the way, I started to work as a grade 4 clerk-typist in the Federal Government.

I'm very proud of my government service. But I feel that I spent almost 30 years of my life—sometimes, when I pick up the papers and see the derogatory remarks made concerning the Federal workers—there's no difference in the Federal—there are people in the private sector that do not do a good job, the same as there are some in the government, I'm sure.

But when someone spends as many years and felt that they were doing what they wanted to do, and they felt they were contributing to the government, the same as in the Army, except that they're not in trenches, you know, and then to suddenly, in your retirement years, find that constantly you're being taken shots at as a result of what you thought was a contract with the Federal Government that you would be treated fairly in your retirement years.

Mrs. MORELLA. Would you include in that equity concept military retirees also?

Mr. JACKSON. Yes, I do. I think they are very important. Military retirees gave a lot to this country. And not only did they give a lot, but they sacrificed in their family life.

I just recently interviewed a young man for a position in my office, and he had been in the military, and now he has come out into private life looking for a job. And the man had tears in his eyes because he's looking for a job and he finds that because he has been in the military, now he's coming into Federal work at an advanced age, it's difficult.

I think sometimes that we, as individuals, lose sight of what the people overseas have done, the sacrifices that they have made to their country by leaving their families here. And I think they need and deserve the same treatment.

Mrs. MORELLA. I think that's great. I think that gives a great deal of credibility to NARFE and the work that you have all done. Thank you very much, Mr. Jackson.

Thank you, Mr. Chairman.

Mr. MICA. I would like to yield to the gentleman from Virginia, Mr. Davis.

Mr. DAVIS. Thank you.

Mr. Jackson, thank you. I very much appreciated your statement. As a new Member of Congress, I think it put some things into perspective for me.

One of the things I was intrigued by is, you talk about civil service retirees are being really penalized for their choice of employer through the Windfall Reduction and Government Pension Offset

provisions. I had not realized before the fact that if these individuals had chosen to work for a private company these offsets wouldn't apply. Isn't that correct?

Mr. JACKSON. That's right.

Mr. DAVIS. I was in private business for some time before I came to Congress. I just can't imagine an employer trying to kick their employees in that way. It's got to have a devastating effect on morale. Maybe you could comment on that.

Mr. JACKSON. Well, it has a definite effect. I come from St. Louis, MO, and I have a lady in St. Louis who has been affected by that, and she has written over 1,000 letters to Members of Congress asking that something be done about that. We have other members throughout the country who have asked for the same thing.

I'm sure that when Congress passed the windfall elimination and the government pension laws that they thought at the time that they were doing something right. There was the word "double-dipper" that was involved, and many people thought that that's what they were doing.

But basically, what it did is, it has reduced the income of many people who are Federal retirees, simply because their husband was under the Social Security system, and where they would normally be drawing a portion of that Social Security as a result of the husband, then they are penalized because they are drawing a check from the government as a Federal retiree.

Mr. DAVIS. Mr. Jackson, I was in local government for a number of years, as well. When I came in as the head of our government, we had some double-dipping laws and everything else, but we changed those. Because it seems to me, when an employee works, they pay into a system, they earn a benefit, and that's an earned benefit. At that point, that shouldn't be taken away from them because later on they were to apply for another job somewhere and earn another benefit.

You shouldn't penalize someone because they've worked for you before; whereas, if they work for somebody else, they get an added benefit. It's the same kind of thing here, where we keep going back and feel that, because somehow these are government checks and they put it together. We lose sight of the fact that, in fact, these are earned benefits; these are contractual benefits.

If you look at it in that way, it's kind of ridiculous, isn't it?

Mr. JACKSON. That's true. You will find that many of the women who are affected on this feel also—they will use the word "discrimination" to you, because they feel very much that it's discriminating against them.

Mr. DAVIS. Well, it goes back to, I guess, people regard this as some kind of entitlement, but in point of fact it's an earned, contractual benefit.

Mr. JACKSON. Yes.

Mr. DAVIS. That members take into account when they go into government service and they give up other things to get these down the road.

It just seems to me that before we start changing these rules we need to look very, very carefully. The equity argument, I think, is compelling—with Social Security—and I appreciate your testimony.

Mr. MICA. I thank the gentleman.

Mr. Moran, did you have additional questions?

Mr. MORAN. I did. I would just like to thank you. And I appreciate Mr. Davis underscoring that inequity. Of course, the glaring inequity that we're faced with right now is, how can the Congress decide to give a 100 percent cost of living allowance for all Social Security recipients, on the assumption that they need it, and yet only give three-quarters of that allowance to Federal retirees? They certainly have the same expenses.

Mr. Chairman, I would like to yield my time right now to Mr. Hoyer, who has been such a leader on these issues, if Mr. Hoyer would like to share some of his observations with us, Mr. Chairman.

Mr. MICA. Without objection.

Mr. HOYER. Thank you very much, Mr. Chairman.

Mr. MICA. I welcome you to the panel, and I defer to you, even though you're not a member of the panel, because I remember, when I was in the minority, courtesy was not extended to me. Not by you. You have always been fair with me and fair toward me, and I appreciate that.

Mr. HOYER. A new precedent is being set today.

Mr. MICA. But, again, you have the balance of the gentleman's time.

Mr. HOYER. I thank you very much, Mr. Chairman, and thank my good friend, Jim Moran, for yielding.

I will be brief. But before she leaves, let me say that my good friend and colleague and co-laborer in the field, Frank Wolf, Connie Morella, Jim Moran, myself and others, and now, I'm sure, Tom Davis, who is new—have worked very, very hard over the years to not just represent our constituents, many of whom are Federal employees, but represent the best interests of America which is served by having a civil service that is able, talented, gives advantages so that recruitment is possible, and has a continuing quality of service that the American public expects.

That's really what this is all about, not just about representing constituents. But I differed with Mrs. Morella when she said that Federal employees have been on a seesaw. A seesaw goes up and down. They've been on a slide since 1981. It's been all down.

The $163 billion referred to in your statement is the cumulative effect of changes in law to effect savings. That, Mr. Bass, is what they were referring to. If the law had been the same today as it had been in 1981 and we had not changed it, we had not changed the contract, if you will, we would have paid out an additional $163 billion over a time period where we spent, I guess, $6 trillion or $7 trillion. So it's not that big a percentage although it is a very big number. So I understand the seesaw analogy, but I think most would say it has been a slide, because the coming up has really not been very high off the ground.

Mrs. MORELLA. The insecurity of a seesaw.

Mr. HOYER. That's correct.

Mrs. MORELLA. You never know where you are at any one point.

Mr. HOYER. I understand.

Mr. Chairman, the majority party had a contract, they say, with America. I think, as I have said, it didn't have much to do with the election, but I think it has had very much to do with the agenda

and focusing the agenda. And to that extent, I think it has been a great success.

In the course of talking about the Contract With America, you have talked a lot about promises made and promises kept. I was pleased to hear you say in your statements that keeping promises to employees was critically important. Mr. Mascara mentioned that. Mr. Moran has mentioned that. It is.

It's not just important because it's the right thing to do. It's important because, if we do not keep our promises to our employees, our ability to retain and recruit the kind of quality personnel we need to run our government will be eroded very substantially.

Let me just say one thing. I don't have it with me, but I'm going to bring it to you. The Hudson Institute—some of you may know of the Hudson Institute—it is a relatively conservative think tank. It was asked to do a study with reference to Federal employee pay and benefits. There are essentially only two benefits that Federal employees have: retirement and Federal employee health benefit plans.

The Federal employee health benefit plan, Mr. Chairman, is looking better. It's not getting better; it's looking better. And the reason it's looking better is because, in the private sector, which historically had noncontributory plans with many choices, in some instances, and with fee-for-services options most of the time, is now an eroding service which is more frequently limiting choice to an HMO component. The second was the retirement benefit. The retirement benefit was better than the private sector. It remains, certainly, comparable to the private sector for most levels of employment. The fact of the matter is, the Hudson Institute said that pay was so far behind private sector analogs that if you did not retain retirement and health benefits at constant levels, if you eroded them, you would substantially undermine the competitiveness of the Federal sector as an employer.

That is why, Mr. Chairman, the Bush administration exercised leadership and cooperative efforts with me and others in the Congress to effect the Federal Employee Pay Comparability Act. We're not there. We're not even close. We're still about 85 percent behind, not in terms of the Federal sector pay, 85 percent of the way to get there. The law was supposed to get us there over 9 years.

Fiscal reality has confronted us, but I would urge you, Mr. Chairman, I would urge this committee to follow the recommendation of the Hudson Institute and not, in any way, adversely affect either retirement or Federal employee health benefits until such time as this government reaches comparability with the private sector. I think that's critical, and I urge your attention to that objective.

Mr. MICA. I thank the gentleman for his comments.

I also want to thank our first witness, Mr. Jackson, for your participation and also the fine manner in which you represent individuals who have served the country as civil servants.

Again, the purpose of this subcommittee hearing today is not really to get into questions of compensation and benefits, per se, but to really look at a drain from the general Treasury, a shortfall both on a monthly and annual basis.

The administration has come up with some proposals. We appreciate your recommendations to us today and also the comments

that Mr. Hoyer and you made about the fairness of the individuals who serve on this committee, on both sides of the aisle, and their interest for equity and to try to do the best job possible. That's our sole intent here today.

So I thank you, Mr. Hoyer, my colleague, and Mr. Jackson for your testimony.

Mr. HOYER. Thank you, Mr. Chairman.

Mr. MICA. Thank you.

Since we've got quite a few panels to go here, I'd like to call the second panel. Mr. Moe Biller, president of the American Postal Workers Union, and Mr. George Gould, who is chairman of the National Association of Letter Carriers.

If you would, gentleman, come on up. You have another gentleman with you, Mr. Biller?

Mr. BILLER. Yes. Mr. Burrus, our executive vice president.

Mr. MICA. OK. If he will be testifying, I would ask the three of you to also please stand and be sworn in.

[Witnesses sworn.]

Mr. MICA. Let the record reflect that the witnesses answered in the affirmative.

I would like to again welcome you to our subcommittee. If I may, we could start with Mr. Biller.

Mr. Biller, would you like to begin?

Mr. BILLER. Fine.

STATEMENT OF MOE BILLER, PRESIDENT, AMERICAN POSTAL WORKERS UNION (APWU), ACCOMPANIED BY WILLIAM BURRUS, EXECUTIVE VICE PRESIDENT; AND GEORGE GOULD, CHAIRMAN, NATIONAL ASSOCIATION OF LETTER CARRIERS (NALC)

Mr. BILLER. Mr. Chairman and members of the subcommittee, I appreciate the invitation to testify this morning. My name is Moe Biller, president of the American Postal Workers Union, AFL–CIO.

APWU proudly represents 360,000 employees and retirees of the U.S. Postal Service. APWU members are on the front line of reorganization and change in governmental services to the public. Last year we delivered over 177 billion pieces of mail, touching every citizen nearly every day. The year before we delivered over 171 billion pieces. Mail volume increased from 1993 to 1994 by 3.4 percent.

This is a rapidly changing country with a tremendous ability to adapt and modernize for the future. Postal workers are willing and ready to be part of the communication system for the 21st century, and we need your support to accomplish these changes. The provision of universal mail service at low cost is and will remain the major way to bind the commerce and the citizens of this country together.

To be successful at delivering mail in the 21st century, however, we need your support to retain a decent, comparable, total compensation package for postal workers. We bargain over wages, working conditions, and health benefits with the Postal Service in a process separate from political interference, but our retirement benefits are the same as Federal employees. Total compensation has been determined in the collective bargaining process in which Federal retirement is part of the total package. As the source of

their livelihood, the Federal Government has special responsibilities to Federal and postal workers as their employer. As members of the committee of jurisdiction, you have a responsibility in Congress to uphold the Federal Government's obligations as employer.

In the invitation, Chairman Mica asked us to identify places within the Civil Service Retirement System and the Federal Employees Retirement System that Congress can look to for budget and system reforms. My first response to that question, Mr. Chairman, respectfully, is to remind the committee of several important facts:

One, Federal retirement just went through major reform several years ago. The separate Civil Service Retirement System and Federal Employees Retirement System programs are the result of enactment and implementation in the late 1980's of the most substantial reform of Federal retirement in its more than 70 year history.

Two, Civil Service Retirement and FERS are comparable to many other large employer plans. Like all large employer retirement plans, the Civil Service Retirement System and the FERS were designed to serve the special needs of a large employer. An example of these special needs is occurring right now. Federal agencies and the Postal Service are going through a period of substantial downsizing. If, at the same time, employees are facing cuts in their expected retirement benefits, they are going to delay retirement to protect their retirement income security, and downsizing through attrition will be delayed.

Three, Federal total compensation is lower than comparable private sector employers. The 1993 Hay/Huggins study of total compensation of Federal, State, and private sectors indicated that Federal retirement programs are more generous than private sector programs by 6.4 percent of pay. However, pay and other compensation fall 10 percent and 13.5 percent behind comparable private sector firms and thereby pull the total compensation package for Federal employees to a level that is 7.2 percent below the private sector. Thus, total compensation for Federal employees, including pensions, is already lower than for comparable private sector employees.

Four, postal ratepayers, not general taxpayers, pay for Postal retirement. The Postal Reorganization Act of 1970 designated the Postal Service as a fully self-sufficient, independent establishment of the Federal Government. It operates according to businesslike procedures. For example, it follows Generally Accepted Accounting Procedures for its financial statements.

The Postal Service pays for its expenditures and its retirement, using postal receipts from mail service user fees. Unlike other agencies, the Postal Service, starting in 1974, was required to pay for the unfunded retirement costs from wage schedule increases. Also, unlike other agencies, in 1988 and 1989, the Postal Service was saddled with huge additional costs, allegedly to pay for retirement cost of living costs. Starting in 1990, the Postal Service and postal ratepayers were required to make retroactive payments for COLA's back to the 1971 startup of the Postal Service. Again, in 1993, the Postal Service was required to make additional future payments, again allegedly for retirement costs. No other Federal entity has been given these sudden additional burdens, and no pri-

vate business would be required to take on these additional burdens. In recent years, the Postal Service and postal ratepayers, not the taxpayers, have more than paid for postal retirement.

FERS, the new program, is a substantial reduction in benefits for many low and middle income Federal employees and postal employees. A major part of the FERS plan is a Thrift Savings Plan which benefits higher income Federal and postal employees much more than lower. FERS is not a pay-as-you-go retirement plan. It's a defined contribution plan and not a defined benefit plan. There are no unfunded liabilities in FERS; it is fully funded just as a private sector employers are required to do under ERISA. Cutting FERS benefits to use trust funds for deficit reduction would be the same as a private sector employer dipping into its employee retirement, which could be a felony under ERISA.

Five, choosing to remain in Civil Service Retirement or go into FERS was an irrevocable lifetime decision. Retirees and workers are depending on those benefits for their needs during retirement. If this year's budget process is just going to be a budget hacking exercise, the only retirement cuts which save big bucks over the next 5 to 7 years are not for prospective employees but will come directly out of the hides of current workers and retirees. That is just not acceptable. In our opinion, it's plain right dishonest, kind of a double cross. Work a career and then get shafted. Congress has enacted laws to prevent private sector employers from taking away benefits promised and earned. The government should live up to the same standard.

Six, the average age of Civil Service Retirement System enrollees is 48, with 21 years of Federal service. The Civil Service Retirement System program is now a closed program. Every worker covered under Civil Service Retirement System has at least 10 years of service. CSRS enrollees are not getting any younger. It is phasing out. In a little more than a decade, virtually all new Federal civilian retirees will be covered under FERS. Some critics of CSRS say that employees or retirees should pay for the unfunded liability that exists in CSRS now because it is a closed plan. That's just not fair. The program was developed with pay-as-you-go funding for reasons of government policy in an era before ERISA. Pay-as-you-go was the norm, and there were policy reasons for not building huge reserves, since the government doesn't come and go like even the largest private companies do. Making CSRS employees and retirees pay retroactively for government policy would be an outrage.

Seven, CSRS is a full retirement program. It was established in 1920 and therefore predated Social Security by 15 years. It was designed to provide a complete retirement income and not to be wrapped around Social Security like private sector plans and the new FERS plan. Therefore, cutting Civil Service Retirement cuts benefits for many employees who have no Social Security safety net underpinning their retirement plans and could plunge them into dire poverty. Those with Social Security coverage from other employment are prevented from so-called windfall Social Security benefits through an offset in Social Security benefit payments.

Mr. Chairman, these are just a few of the reasons why this subcommittee needs to defend and not attack Federal and postal employee benefits. There is no great public outcry to cut Federal and

postal benefits. These benefits are not budget-busters. Federal retirement costs are growing more slowly than the economy. If there is a public outcry against benefits, it may be against those received by Congress itself. Congressional retirement is significantly more generous than Federal and postal retirement. I suggest that, if you must make cuts, look those over, and please don't mess with the benefits Federal and postal workers and retirees have been promised and on which they depend. Dedicated career employees whose total compensation, including retirement benefits, is in line with private sector employment, and actually less than that paid by comparable large employers, should not be penalized because of the generous retirement plan enjoyed by Members of Congress.

When you ask us to cooperate, I hope you're not asking us to participate in a shotgun wedding or to play Russian roulette with ourselves. This is not statesmanship, but this involves shooting ourselves in the head.

With this, I respectfully submit the statement.

Mr. MICA. I thank the gentleman and assure him that we don't plan to participate in a shotgun wedding, nor play Russian roulette.

I'd like to welcome to our panel Mr. George Gould at this time, for his comments. Welcome, and proceed with your testimony.

Mr. GOULD. Thank you, Mr. Chairman.

Chairman Mica and members of the subcommittee, I am George Gould, assistant to the president for legislation and political affairs of the National Association of Letter Carriers, an AFL–CIO union which represents city letter carriers actively employed and retired from the U.S. Postal Service.

I have a more lengthy statement, Mr. Chairman. With your permission, I'd like to put that in the record and give you a brief overview of that statement.

Mr. MICA. Without objection.

Mr. GOULD. Thank you, sir.

On behalf of President Sombrotto, I offer his apology for not being able to be here this morning. He is now presently involved in mediation as part of contract negotiations with the Postal Service. President Sombrotto, on behalf of 310,000 members, wanted to congratulate you upon assuming the chairmanship of this subcommittee and looks forward to working with the subcommittee as it deals with the many issues under its jurisdiction.

As this subcommittee is aware, few public debates are as polarizing as that concerning the Federal budget. Questions about the appropriate role and size of government and who should pay for it are at the crux of this debate. All too often, sound bites and scare tactics have characterized the discussion of this issue. Moreover, historically, smoke screens have been deployed to shield the true motives for diminishing Federal and postal retiree benefits—that is, to shift the cost of governing America onto the backs of its present and former public employees.

While I appreciate your staff's desire to advise us of the budget-cutting proposals being contemplated by this committee and others, NALC members are distressed that the proposals seek to extract revenue from Federal and postal workers through increased contributions and benefit cuts to both CSRS and FERS. These pro-

grams should not be on the budget scaffold, waiting to be placed on the perennial chopping block.

Please keep in mind, as you consider reductions to CSRS and FERS, that, according to the Bureau of Labor Statistics, 95 percent of private-sector employers pay the full cost of their defined-benefit plans and require no—that is, no—employee contribution. Furthermore, a recent study conducted by the Economic Policy Institute concluded that the cost of Federal retirement programs, which cover letter carriers, grew less than the gross national product in the 1980's. This fact is a strong indicator that the programs are on a sound financial footing. Other factors drove the escalation of the Federal deficit, not Federal and postal workers. In all fairness, we should not be the solution.

Additionally, in reality, Federal and postal employees have already been subjected to extraordinary cuts, that Congresswoman Morella dictated a few minutes ago, on their retirement system. Most notably, Federal retiree COLA's have been eliminated, reduced, and delayed for a total budget savings of $40 billion between 1981 and 1994. COLA reductions have been particularly painful to our retirees, as COLA's merely protect purchasing power of retirement income from erosion due to inflation. Simply put, COLA's prevent retirees from becoming poorer as they get older but do not make them better off than they were at the start of retirement. Moreover, as compared to Social Security COLA's, CSRS adjustments lag by more than 88 percent, 1969 being the base year for that statistic.

I know that it has been argued that COLA's are not universal to all pension systems, but you need to understand that non-Federal-pension employees receive a fully indexed Social Security on top of their pension. Most CSRS employees do not participate in Social Security. In addition, CSRS beneficiaries who worked in the private sector and, as a result, have qualified Social Security benefits, are penalized by having their Social Security offset by CSR benefits. And where Social Security benefits are not taxable, CSRS and FERS benefits are subject to Federal income tax.

I understand that one of the arguments we have heard—and I heard it this morning—for raising CSRS contributions is the trust fund's so-called unfunded liability. At the risk of sounding parochial, I must emphasize, as President Biller did, that none of this liability is associated with postal employees. The Postal Service has been the only Federal agency to pay the full cost of employee retirement benefits over the past 25 years. It has not only amortized any unfunded liability that arises from pay raises; it has also reimbursed the Treasury for the past postal annuitant cost, as called for in the Reconciliation Acts of 1987, 1988, 1990, and 1993. Postal annuitants do not now, and will not in the future, contribute to the deficit or the national debt.

Furthermore, the projected cash-flows of the Civil Service Retirement Trust Fund, which finances both CSRS and FERS, are positive and will improve for as far as the eye can see. Because FERS is actuarially sound and the number of annuitants is not expected to rise significantly relative to the size of the Federal workforce, the unfunded liability of the overall Federal retirement program is declining in real terms and is on a downward path.

As someone who actively participated with Chairman Ted Stevens in drafting the FERS statute, I can testify that FERS was created to alleviate any real or perceived problems associated with CSRS. This has been done. Furthermore, many postal and Federal employees made retirement decisions based upon the solemn promise made by Congress not to subject either retirement program to further tinkering. Letter carriers would interpret further benefit changes as Congress defaulting on this pledge to them.

After all this is said, I must ask the subcommittee, almost rhetorically, does anyone believe that such an increase in retirement contributions will be credited to the trust fund, rather than be used for deficit reduction? I must also ask, will the proposed reductions to earned retirement compensation be used to credit the trust fund? If the answer is no, then we simply have levied, upon a particular class of workers and retirees, a new Federal income tax.

I know that this subcommittee can only address budget issues under its jurisdiction, but we need perspective to comprehend the underlying reasons for the current clamor to reduce the budget deficit.

Mr. Chairman, please understand the skepticism and outright fear that the postal and Federal retirees have every time Congress seeks to find deficit reduction in the pockets of its current and retired workers. I reference Mrs. Morella and Congressman Hoyer's discussion about the slide and the seesaw. Our experience as Federal workers is that, in the budget playground, there is plenty of room for both slides and seesaws, and we have been affected by both of them over the years.

It's like traveling along the Garden State Parkway in New Jersey: a toll booth at every turn. The difference is that on the parkway its nickel-and-diming; here it's billions of dollars that are required from the loyal public employees at each stop.

I would also, sir, if I may—it is characterized by a classic Abbott and Costello routine, in which Bud Abbott asks Lou Costello, "If you had $100 in your left pocket and you had $150 in your right pocket, what would you have?" And Lou Costello responds, "I'd have somebody else's pants." That's what Federal employees are experiencing over the last 12 years.

A dialog will undoubtedly proceed as events unfold. We look forward to working with you and to be involved in that later dialog.

Thank you, sir.

[The prepared statement of Mr. Gould follows:]

PREPARED STATEMENT OF GEORGE GOULD, CHAIRMAN, NATIONAL ASSOCIATION OF LETTER CARRIERS (NALC)

Chairman Mica and members of the Subcommittee, I am George B. Gould, Assistant to the President for Political and Legislative Affairs, the National Association of Letter Carriers, an AFL–CIO union which represents city letter carriers actively employed and retired from the United States Postal Service.

On behalf of President Sombrotto, I offer his apology for being unable to testify this morning, as he is presently in contract mediation over the NALC's national agreement with the USPS. President Sombrotto, on behalf of the 310,000 NALC members, wanted to congratulate you upon assuming the Chairmanship of this subcommittee and looks forward to working with the Subcommittee as it deals with the many issues under its jurisdiction.

As this subcommittee is no doubt aware, few public debates are as polarizing as that concerning the federal budget—questions about the appropriate role and size of the government and who should pay for it are at the crux of this debate. All too

often sound-bites and scare tactics have characterized the discussion of this issue. Moreover, historically, smoke screens have been deployed to shield the true motives for diminishing federal and postal retiree benefits—that is to shift the cost of governing America onto the backs of its present and former public employees.

While I appreciate your staff's desire to advise us of the budget cutting proposals being contemplated by this subcommittee and others, NALC members are distressed that the proposals seek to extract revenue from federal and postal workers through increased contributions and benefit cuts to both CSRS and FERS. These programs should not be on the budget scaffold waiting to be placed on the perennial chopping block.

Please keep in mind as you consider reductions to the CSRS and FERS that, according to the Bureau of Labor Statistics, 95% of private sector employers pay the full cost of their defined benefit plans and require no employee contribution.

Furthermore, a recent study conducted by the Economic Policy Institute concluded the cost of federal retirement programs—which cover letter carriers—grew less than the Gross Domestic Product in the 1980's. This fact is a strong indicator that the programs are on sound financial footing. Other factors drove the escalation of the federal deficit, not federal and postal workers. In all fairness, we should not be the solution.

Additionally, in reality, federal and postal employees have already been subjected to extraordinary cuts on their retirement system. Most notably, federal retiree COLAs have been eliminated, reduced, and delayed for total budget savings of $40 billion between 1981 and 1994.

COLA reductions have been particularly painful to our retirees, as COLAs merely protect the purchasing power of retirement income from erosion due to inflation. Simply put, COLAs prevent retirees from becoming poorer as they get older, but do not make them better off than they were at the start of retirement. Moreover, as compared to Social Security COLAs, CSRS adjustments lag by more than 88%, 1969 being the base year. I know that it has been argued that COLAs are not universal to all pension systems, but you need to understand that non-federally pensioned employees receive a fully-indexed social security on top of their pension. Most CSRS employees do not participate in Social Security. In addition, CSRS beneficiaries who worked in the private sector and, as a result, have qualified Social Security benefits are penalized by having their Social Security offset by CSRS benefits. And, whereas social security benefits are not taxable, CSRS and FERS benefits are subject to federal income tax.

I understand that one of the arguments we have heard for raising CSRS contributions is the Trust Fund's so-called "unfunded liability".

At the risk of sounding parochial, I must emphasize that none of this liability is associated with postal employees. The Postal Service has been the only federal agency to pay the full cost of employee retirement benefits over the past 25 years. It not only amortizes any unfunded liability that arises from pay raises, it has also reimbursed the Treasury for all past postal annuitant costs—as called for by the Omnibus Reconciliation Acts of 1987, 1988, 1990, and 1993. Postal annuitants do not now, and will not in the future contribute to the deficit or the national debt.

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As someone who actively participated with Chairman Ted Stevens in drafting the FERS statute, I can testify that FERS was created to alleviate any real or perceived problems associated with CSRS. This it has done. Moreover, many postal and federal employees made irrevocable retirement decisions based upon the solemn promise made by Congress not to subject either retirement program to further tinkering. Letter carriers would interpret further benefit changes as Congress defaulting on its pledge to them.

After all this is said, I must ask the subcommittee—almost rhetorically—does any one believe that such an increased retirement contribution will be credited to the Trust Fund rather than be used for deficit reduction? I must also ask will the proposed reductions to earned retirement compensation be used to credit the Trust Fund? If the answer is no, then we simply have levied upon a particular class of workers and retirees a new federal income tax.

I know that this subcommittee can only address budget issues under its jurisdiction, but we need perspective to comprehend the underlying reasons for the current clamor to reduce the budget deficit.

Mr. Chairman, please understand the skepticism and outright fear that postal and federal retirees have every time Congress seeks to find deficit reduction in the pockets of its current and retired workers. It's like traveling along the Garden State Parkway in New Jersey—a toll booth at every turn. The difference is that on the Parkway it's nickel-and-dimeing—here billions of dollars are required from loyal public servants at each stop on the road.

Thank you.

Mr. MICA. I appreciate your comments and, again, welcome you to our panel.

Again, one of the reasons that we're holding these hearings is that we do not have an "imaginary" outflow of $19 billion a year to support the retirement system; it's very real; it's funded to the extent of about $1½ billion a month.

And the Lou Costello pants analogy is that it's coming out of the taxpayers' pants. And the analogy of the New Jersey State parkway is that, if you don't pay one of those tolls, they'll come up and arrest you.

That's what we're faced with, and that's what we're trying to find a solution to. You've heard the testimony of most of the Members of both sides of the aisle, and others who have been before us or talked informally, and they don't want to touch benefits or commitments that are made. So it doesn't leave you with too many options. One option is increasing employee contributions.

When was the last time that the employee contribution was set? Was it 1969, as I recall?

Mr. GOULD. That's correct.

Mr. MICA. Again, if you have choices here to make, what would you do? You have stated—both of you—in your testimony that you don't want to touch benefits, but it's necessary to increase revenues from some source. How would you meet this shortfall?

Mr. BILLER. We've already pointed out, sir, that the Postal Service is—there is no unfunded liability, as far as the Postal Service contributions are concerned. They are paid up.

Mr. MICA. Mr. Gould.

Mr. GOULD. We also reference that in our testimony—that postal employees and postal management have paid up. Specifically, I would like to say that a CRS report concerning the general fund requested Mr. Hoyer, indicates—and I would like to submit this for the record, with your permission—that "Official projections of the trust fund balances show that the funding is more than adequate to cover benefit costs, as benefits are paid annually and credits are entered annually."

The point I am making is that those of us that worked on FERS anticipated this problem. In fact, the problem with the liability—so-called unfunded liability—exasperated and drove us to this solution. When we drafted the legislation in 1986 and 1987 with Senator Stevens and then-Senator Gore, and Gene Taylor and Ben Gilman and other Members of the House, we did it with this in mind. There is a glide path here in which the fund will eventually have no participants, and the FERS will be the only retirement program we will be involved in.

By attempting to increase the contribution at this point, you are either taxing the Federal employees or you're reducing their salaries. And there was an agreement, an understanding, as Mr. Mascara referenced, that this would not happen. This plan would be

phased out over a 30-year period and FERS then would be the only retirement plan available to Federal employees, and that plan is actuarially sound.

Mr. MICA. Well, the Congressional Research Service report you cited also indicates that CSRS has an unfunded liability of $540 billion. "Unfunded liability" is defined as the obligation to pay future annuities, less the current assets in the system and future contributions. Current assets are past contributions from employees and contributions from the government. This unfunded liability requires a transfer from the general Treasury to the trust fund.

We're doing that to the tune of $19 billion a year. I can ignore my responsibility, come in here and let this continue, as chair of this subcommittee, and if we have 10 other subcommittee chairmen, or committee chairmen, meet their obligation in the same fashion—or fail to meet it—that adds up to what our Federal deficit is.

So it's not a happy task for me to look for ways to make this happen, but it's back to the Abbott and Costello pants. We're taking it out of the general revenue.

It is true that corrections were made by the creation of FERS but look at what is currently being recommended by the administration and this Congress. Who is going to end up retiring and being more of a drain on this CSRS system? People who are from that system and that era.

So I think this unfunded liability, an obligation from the Federal Treasury, is going to even increase. I hope I'm wrong, but we're not left with too many options, as I see it.

Those are my comments, if you care to respond.

Mr. GOULD. I appreciate that, Mr. Chairman. I do want to add, though, that this administration did recommend amortizing the unfunded liability by increasing the agency contributions, and, of course, we would support that. I'm sure other Federal employees would. Again, the Postal Service and the postal employees have paid their past liability and are paying for their contributions now, so we are not in any form of default.

Finally, I appreciate—and I believe you, and trust you in your attempt to be of assistance in determining what the options are, but, as you can appreciate, I don't know what the rest of the options are. I don't know what the money is going to be used for. I don't know how the other budget hits that other committees are talking about are going to affect us.

Let me be as candid with you, sir, as you have been with us. We don't know if this is going to come in two and three and four waves. We may all get together and agree that maybe there is a compromise today and then, in April, there is another hit, and then, in reconciliation, in September, there is another hit. It's one thing to debate the poison we should take. It's another thing to offer our own poison this early in the process.

Mr. MICA. Again, from my opening comments, I want you to be part of the process and that's why I'm taking the initiative of these hearings: so we can get ahead of the curve and aren't left with the choices of cutting compensation, cutting benefits, or cutting past commitments, so that we try to address this problem and find a positive solution for it, working together.

It's as painful for me as anyone. I hate to be corny, but I share your pain. Have we heard that before?

With those comments, I defer to the gentleman from Virginia, Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman.

I have a sense I may be asking questions of the choir with our panelists, so some of these questions might be in the form of a discussion with the chair.

In the first place, what we are recommending to deal with what is alleged to be a $540 billion unfunded liability is a 2-percent tax on Federal employees so that the CRS contribution would increase from 7 to 9 percent. That generates about $5 billion more over 5 years. That's less than 1 percent of the unfunded liability we're talking about. In proportionality, it seems that we're taking a real heavy hit on Federal employees, in terms of their taxes, under the guise of addressing what is alleged to be a half-trillion-dollar unfunded liability.

That seems to be out of proportion. But the cost of the Federal pension system has, in fact, not been going up. If anything, it has gone down, because the way that we originally estimated it was based on what's called a static model of cost estimating. And I'd like some reaction from the panelists on this.

That's how we came up with 7 percent, because people under CSRS were not getting Social Security, and the 7 percent is comparable to what people in the private sector would pay toward Social Security, and the employer pays another 7 percent, and you get to 14 percent. So they took a static cost model, and CSRS employees paid 7 percent.

Well, if we keep with that original base assumption, with the interest that has accumulated, the actual static cost has gone down. What has happened is that we now decide, instead of using the static cost model the Congress previously decided to use, we're going to use a dynamic model, which projects cost-of-living increases, projects the inflation.

We build in all the changing interest rates and their impact on retirees and current employees, and we project out this increasing cost estimate, and that's where we get apparently, this unfunded liability. What we've done is to change the assumptions. Essentially, what we did to Federal employees is—as they were contributing, getting closer to the goal of having a fully funded system, we've changed the goalposts. We changed the model that Congress had originally decided to use.

I think that's what this is all about, and I can only assume—and I don't think it's coming from you, Mr. Chairman, but somebody is really not playing fair with the justification to bring these suggestions up in the first place. Our speakers have told us, time and again, that Federal employees are not getting any more generous a system than they would get in the private sector; and, in fact, in most cases, 95 percent of the cases, according to Mr. Gould, the private corporation will have its own pension fund, and in 95 percent of the cases they'll pay 100 percent, not even expect the employee to pay anything, plus it's supplemented by Social Security.

Now, they may not give annual cost-of-living increases out of their pension fund, but they don't because they know their employ-

ees are getting Social Security and thus get that annual increment, and they know the Congress is going to provide it to them, because there is this enormous Social Security population that we wouldn't mess with, as juxtaposed to Federal employees, who are far fewer in number and thus, apparently, less of a political threat.

Maybe for 30 seconds I could get any reaction, if I said anything that I misunderstood, perhaps, in your testimony, before we go to— is there any—is that consistent with what you said, Mr. Gould and Mr. Biller?

Mr. GOULD. Yes. That is consistent.

Mr. BILLER. Yes. Go ahead.

Mr. GOULD. Let me just add one other thing, if I may, Mr. Moran, on that: In the private sector, the contribution that the employer makes is usually to an investment fund, not their current dollars. So then they reach an appreciation, based on that investment fund.

So when you try to compare the so-called unfunded liability of the Federal retirement system with the private industry, you're really talking about apples and oranges.

Mr. BILLER. More than that, I don't assume that the unfunded liability is just going to be paid out at one time and close up shop that way. It just doesn't work that way.

Mr. MICA. I appreciate your response. I'm going to yield to the vice chairman, Mr. Bass.

Mr. BASS. Thank you very much, Mr. Chairman. I have a couple of general questions and one specific question. A general question of both of you: Do you find that it is particularly difficult to recruit people to work for the Postal Service? Is there a tremendous lack of supply—demand—for employees, that it's hard to find people who are willing to work; that, because of the sacrifices that have been made over the years in the retirement system or any other pay or compensation issue alluded to in your testimony—that you can't find people willing to work for the Postal Service?

Mr. BURRUS. Quality people——

Mr. BASS. You're recruiting, trying to find people, running advertisements, and so forth?

Mr. BILLER. Mr. Burrus, our executive vice president.

Mr. BURRUS. Quality people that are committing an entire career to the U.S. Postal Service—the response is yes. We have a very low attrition rate once employees pass their probationary period, but we wash through perhaps 18 people for every 10 jobs that are filled. So if we just go to the general public and ask, "Are you willing to work for the Postal Service," a lot of people are, but we're competing for the quality employees in our society, people that will spend a career, perform admirable service over that career.

So in terms of do we have difficulty, yes, we do have difficulty.

Mr. BASS. Why do you think there is such a low attrition rate?

Mr. BURRUS. The low attrition rate is because those employees that come to the Postal Service and survive the early years are committed to a lifetime of public service. And the unions certainly must take credit for part of it. We have negotiated comparable wages and hours and benefits for those employees.

Mr. BASS. One question of you, Mr. Gould. You mentioned in your testimony that Congress made a solemn promise never to sub-

ject—or not to subject—either retirement program—you're referring to CSRS and FERS—to further tinkering. Is there a—I'm a new Member of Congress, and I was just wondering if you could point to the legislative reference to that?

Mr. GOULD. Yes, sir. There were statements made, on the floor of the House and the Senate. There is a letter that was signed by Senator Ted Stevens, Senator Al Gore, Congressman—then chairman of the Ways and Means Committee—Danny Rostenkowski, and the then-chair of the Post Office and Civil Service Committee, Bill Ford, and the ranking Republican on that committee, Gene Taylor, that was circulated, signed by them, and referred to on the floor of both the House and the Senate.

It was a cooperative effort, in that the administration had a plan; Senator Stevens had a plan; Senator Gore had a plan; Congressman Ford had a plan. It took a couple of years to get us all together on something we could all agree on, and one of the linchpins of that agreement was that those people who made a choice to stay in CSRS would not be penalized in the later years by these type of recommendations.

It didn't take a lot of brilliance on our side to anticipate that, once this plan was closed off, people would come up with ideas to cut the plan, so we extracted that promise from the Congress.

Mr. BASS. Do you agree with the chairman's contention that the CSRS system is costing the Federal Government $19 billion a year?

Mr. GOULD. Well, I'm not sure what you mean by that. I'm not sure what the chairman means by "costing." If you're talking about establishing the retirement system in which retirees are paid—receive their benefits—after they retire, like in Social Security, I guess you could use the word "costing," because there obviously is a cost, because the management puts in a contribution, as well as the contribution that the employee made. Again, if that is a real concern, then let's amortize the cost, as the administration suggested.

Let me mention one other thing, since you dealt with the history. When we put together the FERS legislation, this issue was obviously discussed thoroughly, and that was recognized as a concern. That was the reason we created the FERS legislation. At that time, it was recommended that the agency contribution be increased to 18 percent. It was the management, not the employees, that decided against that option. The Reagan administration decided against that option.

Mr. BASS. I think both of you have alluded in your testimony—and perhaps also the previous witness—that we have established in Congress an objective of balancing our budget, and that spending more than we receive is not really a good thing, and as Congress, we'll be prioritizing—trying to prioritize—our spending over the coming years. Do you feel that, if Congress, in good faith, removes the issue of the tax cut but limits its focus to balancing the budget—do you think that you would be willing to be part of that effort over the next five——

Mr. GOULD. We already are, sir. In fact, the savings from the elimination of the lump sum goes to 1998. The projected savings on other cuts that affect postal employees go into the year 2000. We're already participating in those cuts. We have been. We're

talking about the largest cuts to a community, of any community that I can identify, and they go into the year 2000. So we're there already.

Mr. BASS. Thank you very much, Mr. Chairman.

Mr. BILLER. Something that may not have been mentioned: That is a COLA has been deferred any number of times.

And if you're asking, will I drink the hemlock, the response is, most respectfully, no.

Mr. MICA. Thank you. We'll now yield to the gentleman from Pennsylvania, Mr. Mascara.

Mr. MASCARA. Thank you very much, Mr. Chairman. I probably should qualify, before I relate to you a saying that we have in my business, the accounting profession, that I'm not referring to anybody on this panel, the chairman or anybody else, but we receive information from a lot of sources, and I heard the chairman mention the $19 billion. In our industry, we say that figures don't lie, but liars figure. And I've seen the product of that over the last several months, up here.

It has been said here today that the taxpayer must contribute $19 billion a year, roughly, to fund the civil service retirement program. The implication is that, somehow, the trust fund is deficient and needs to be bailed out. That's just not true.

The Congressional Research Service—and they are one of those people I referred to, about supplying information—reports that the Office of Personnel Management estimates that "The total value of securities"—and there's that word again—"in the trust fund will continue to grow and will reach a level of about 4½ times payroll, or, really, 20 times the amount needed to pay annual benefits. In summary, in the next century, the trust fund will reach an ongoing steady state in which it will have a balance sufficient to authorize 20 years of benefit payment." Does this sound like the description of a trust fund that is deficient and is in need of being bailed out?

That comes from CRS—those numbers—and that's what I was alluding to earlier, in asking Mr. Jackson, I believe, at the time, 1989, when some reform took place, was anybody there then that could tell me the number of years that the reform took place.

Mr. GOULD. Thirty years, sir. The calculation was for 30 years.

Mr. BILLER. And these different figures that both of you come up with have to be very distressing to me. I don't have the license you have, so what I say is, figures may not lie, and there are those who don't figure. So I don't know.

Mr. MASCARA. Well, you're exactly right. I see here—and I'm looking at CRS 4—"This will cause an increase in FERS liability. The liability will be paid off through a series of 30-year amortization payments."

Mr. GOULD. That's right. That's correct.

Mr. MASCARA. Thank you.

Thank you, Mr. Chairman.

Mr. MICA. I yield to the gentlelady from Maryland, Mrs. Morella.

Mrs. MORELLA. Thank you very much, Mr. Chairman. I will be brief, because I was off meeting some students on the center steps of the Capitol. But I have read the testimony, and I appreciate my good friends, Moe Biller and George Gould, testifying. And I appreciate, Mr. Chairman, your asking them to testify. I think they

bring with them an incredible treasure trove of experience that they can articulate for this committee and for Congress.

It was pointed out to me, George, that one of the statements you made was, "It's like traveling on the Garden State Parkway, with a toll booth at every turn," and I'm sure that that's the euphemistic way of expressing the kind of feeling that our Federal and postal employees have.

I guess the question that I probably have is, whether or not any increase is actually going to be used or any unfunded liability—and I think you mentioned there is no unfunded liability with the postal pension—I think that's what hovers over all of us—would you not agree—the fact that maybe the contributions that might be looked at might not go to the pension system itself; it might go to a——

Mr. GOULD. Exactly, Congresswoman. And in my testimony, I raised those two questions, and I sincerely believe that the chairman is being honorable with us, but I think that there are those in Congress that have suggested hits on the retirement system for deficit reduction and it really has nothing to do with the so-called unfunded liability.

I've learned one thing in dealing with the budget process, now, for the last 12 or 15 years. The chairman asked us to be somewhat creative and work with him on alternatives, because other alternatives might be worse. My experience has been, in Washington, that creativity is defined by hiding your sources. In that case, I am very leery of venturing forth until I know who all the players are.

Mrs. MORELLA. Mr. Biller, do you want to add anything to that—any final statement you didn't get a chance to comment on?

Mr. BILLER. Nothing to add to what Mr. Gould said, just that I agree with him.

Mrs. MORELLA. Well, I just always think, as I said to NARFE, the idea of making Congress recognize the kinds of cuts you've had through the years and the kinds of difficulties that you've had to face and tried to transcend, all in the interest of public service, I think is important. So I appreciate your testifying. Thank you for coming before us.

And I know that we can, Mr. Chairman, look upon them as resources, and they can do the same with us.

Mr. MICA. I thank the gentlelady from Maryland, and I'd like to yield to the gentleman, Mr. Davis, from Virginia.

Mr. DAVIS. Thank you very much. I appreciate the testimony from both of you. I think it's been very illuminating in putting the pensions, particularly for postal workers, into perspective.

I want to ask this. Let's assume for a second that Congress decided to go ahead and up the employee contribution from 7 to 9 percent, for whatever reason, ostensibly to raise the—to make these systems sounder, or whatever. How would this work, as far as you're concerned? Because from what you've testified, all the money is being paid in now. If you're not paying it, the Postal Service is paying it in.

Mr. BILLER. That's correct.

Mr. DAVIS. So you'd have to deduct it somewhere. I don't understand how it would even work with you all. Am I missing something?

Mr. GOULD. No. Actually, the CRS pointed out that the unfunded liability has absolutely no impact on the budget deficit, so what letter carriers would wind up doing is just having a tax on their salaries, or a deduction on their salaries; it wouldn't offset the budget problem at all, nor would it offset the liability problem. We would just be losing money.

Mr. DAVIS. Or you would have to move the program and exclude the letter carriers, and that doesn't solve the problem, either, and then the savings don't materialize.

Mr. BILLER. Now I see what George meant when he spoke of the other guy's pants. Guess which guys they're after.

Mr. DAVIS. Well, the way some of these suggestions are, you're lucky to have your shirts.

But I appreciate that, and I think that puts it into real perspective, that you've got this huge system, but it is funded separately for the Postal Service, and that makes, really, disparate treatment, should we try to attack it from that avenue. I appreciate that. I think you have made that clear to me.

I want to ask a couple other questions, just for the record. You believe that Federal retirement benefits should have the same protection as Social Security benefits, I take it.

Mr. GOULD. Yes.

Mr. BILLER. Indeed. Moreover, I repeat again that the FERS system, which is obviously going to be the system of the future, is not a defined-benefit system; it's a defined-contribution system. And I would agree with Mr. Gould that, when the system came in, there was a certainty then that Civil Service would not be hit, but it has been hit, and continues to be hit. It's an easy target.

People speak about the "dedicated, loyal postal and Federal employees; off with their heads."

Mr. DAVIS. But one of the differences is that Social Security, to a certain level—you're not paying taxes on that, whereas your workers—your retirees—do pay taxes, correct?

Mr. GOULD. That's correct.

Mr. BILLER. That's correct.

Mr. DAVIS. And I think that is still one difference. Even if you treat them equally, you still have the taxation difference for Federal workers.

Mr. GOULD. We went even farther. At a time when they were discussing the elimination of our COLA, we argued on behalf of equity with Social Security. And when they were talking about cutting back on the COLA for Social Security, CPI minus one, we volunteered to go along with that cut, because there would be linkage with Social Security—not only because it's equitable. A retired letter carrier or postal worker has a neighbor who is on Social Security, and nothing got them angrier than to see their COLA's cut while their neighbor's COLA's were not cut.

Second, again, we are not politically naive. We recognize that everybody is concerned about cuts in Social Security, the so-called third rail of politics, and we are willing to anticipate that they would have that kind of coverage. The fact of the matter is that, if the Congress really wants to save money and they want to deal with entitlements, let's get on with it. Let's step up and get on with it.

Let's talk about Social Security, which we—I'm not suggesting here that my union would support that, but at least, if everything is on the table—if we really want to have a discussion about alternatives, let's get everything on the table.

Mr. DAVIS. Mr. Gould, from what I hear you saying, if you can get the real players in the room and you get up around a table and you want to discuss alternatives, then you're willing to step up to the plate.

Mr. GOULD. Exactly.

Mr. DAVIS. But this is sort of piecemeal. You volunteer it here, and they take you with one rescission. They come back a few months later and take you again. We did the FERS, and now they're coming back and taking another bite of that, and that's just not a complete——

Mr. GOULD. That has been our consistent experience: that we have never been able to be secure in the promises that we've been given over the last 15 years.

Mr. DAVIS. I want to ask you one other question. This is just for the record. Some other ideas have floated through here, and I wanted to get your reaction to them on the record. That is the idea that the—the link—looking at that link between Social Security benefits and Federal retirement benefits, there has been an idea that has floated around that would—the COLA's would be the same until you get to the level of Social Security payment, and at that point there would start being a differentiation in the COLA.

So up to 14.5 or whatever the amount would be, everyone would get the same COLA's, and after that there would be a disparate treatment. Would you be inclined to support that, or would you feel that that would be unacceptable?

Mr. GOULD. Well, again, the COLA was the main reason that the people stayed in CSRS. And FERS, by definition, does not have a full COLA, because it has an investment program and it has Social Security as a base. All this was considered when this program was put together.

Mr. DAVIS. I think that puts it in perspective.

Mr. BILLER. Even in the FERS program, as you know, there are efforts now to tamper with the Thrift Savings, also, and to cut matching funds. So this is a constant attack on Federal and postal workers.

Mr. DAVIS. Super. Thank you very much.

Mrs. MORELLA. Can I just ask one quick question?

Mr. MICA. Mrs. Morella, you have a final question or comment?

Mrs. MORELLA. Thank you. It will be a very brief one.

I just wanted to know, since we talked about equity, how do you feel about the CPI possible change? Remember, Mr. Greenspan has talked about that. I'm just curious.

Mr. BILLER. Well, you know, the government has the freedom to tamper with the rules as they please. All of a sudden, the Consumer Price Index doesn't please them; they've found fault through the years. And maybe they'll want us to pay back, retroactively, for the last 25 years. I don't know.

But, as I said, I won't drink the hemlock unless you force me to—not voluntarily.

Mr. MASCARA. Mr. Chairman, may I just add a comment?

Mr. MICA. Yes. Go ahead.

Mr. MASCARA. In reference to the gentlelady's question regarding the CPI, I think it's a gimmick to reduce COLA's and to help the Members on the other side of the aisle—to help them in their efforts to do whatever they want to do. Alan Greenspan—I'd love to debate him on that issue. I mean, that gets back to the old economics class, when you decided what was in the basket. Apparently they want to change what is in the basket now, to make the CPI look smaller than what it really is.

Mr. BILLER. It took them a long time to figure it out, too.

Mr. MICA. We appreciate your testimony and your participating with us today. I do want the record to reflect that both of the witnesses—in fact, all of the witnesses—are leaving with both their shirts on, their pants on, and not one Member has had their hands in your pockets, yet. So thank you so much.

Mr. GOULD. We appreciate that, Mr. Chairman.

Mr. MICA. Thank you.

I would like to proceed, because we still have a good bit of the agenda to move forward with. Panel No. 3 is Mr. John Sturdivant, who is president of the Association of Federal Government Employees; Mr. Robert Tobias, who is president of the National Treasury Employees' Union; Mr. Louis Jasmine, president of the National Federation of Federal Employees. If you gentlemen will come forward.

All right. I understand there is a delay with this panel, so we're going to proceed to panel No. 4. We have some of those witnesses available, and if I could ask staff to change the panel participant designations I'll call forward Carol Bonosaro, president of the Senior Executives Association and Mr. Bruce Moyer, executive director of the Federal Managers Association.

I appreciate your coming on a little bit ahead of schedule and accommodating us. I'd like to take this opportunity to welcome you to the panel. If you would, as I've mentioned to the other witnesses and participants, it's the custom of this committee and subcommittee to swear in the panelists.

[Witnesses sworn.]

Mr. MICA. Let the record reflect that the witnesses answered in the affirmative. I would first like to call on the president of the Senior Executives Association, Carol Bonosaro, to please begin with her comment and testimony. Thank you and welcome.

STATEMENT OF CAROL BONOSARO, PRESIDENT, SENIOR EXECUTIVES ASSOCIATION (SEA); AND BRUCE L. MOYER, EXECUTIVE DIRECTOR, FEDERAL MANAGERS ASSOCIATION (FMA)

Ms. BONOSARO. Thank you. I thank the subcommittee and you, Mr. Chairman, for the opportunity to testify today and request that my full statement be entered in the record, if I might.

Mr. MICA. Thank you.

Ms. BONOSARO. I confess I feel a little like the man who was told he could control his destiny by choosing hanging or a firing squad. So I trust the subcommittee will provide me a little leeway in spending just a few minutes arguing for a pardon here.

SEA shares the concerns of others who have testified that growth in the Federal civil service and military retirement programs is not

out of control, and will barely exceed inflation and that passage of FERS in 1986 was intended to reform the Federal service retirement system and replicate typical retirement plans in the private sector.

We believe strongly that the Federal retirement system is not out of line with retirement plans of large corporations, and we have cited the findings of the Wyatt Co. survey of retiree benefits provided by plans covering salaried employees of 50 large U.S. companies as of 1994.

I would also point out that large corporate plans are typically non-contributory. In contrast to CSRS, only 7 of 50 of the largest corporations in the Wyatt study require any employee contributions to their retirement plan. Corporate plans are also supplemented by Social Security, whereas Federal employees are limited in their Social Security benefits by application of the windfall reduction benefit computation for workers also receiving a pension from work not covered by Social Security and by the government pension offset for Social Security spousal benefits.

Finally, civil service annuities are fully taxable as ordinary income, in contrast to Social Security benefits.

Most important, SEA's concern is that the Civil Service Retirement System is not an entitlement program. Rather, it is one component of a compensation system for Federal employees. Reforming one component, namely retirement, of a compensation system is unwise without considering the impact of any such changes on the compensation system as a whole.

The data produced by SEA's study conducted by the Hay Group in both 1993 and 1994 comparing compensation of SES positions with that of comparable positions in private industry are most revealing and, I think, pertinent. A sample of SES positions were selected across a range of agencies, SES pay rates and functions from Hay's data base of SES evaluated positions.

Hay's job content evaluation points served as the basis for making compensation comparisons to a wide variety of industries in both 1992 and 1994. On the basis of cash compensation, pay for senior executives would have had to increase from 35 percent to 114 percent in 1994 to reach a par with comparable positions in private industry.

The fact that Federal benefits are somewhat more valuable than private sector benefits had a relatively minor impact on the disparities seen in cash compensation. Total remuneration, that is, pay and all benefits, including retirement, for senior executives would still have had to increase substantially, anywhere from 26 percent to 93 percent, to reach a par with comparable positions in private industry.

As a result, SEA would urge the Congress to be consistent. If the goal is equity with private industry regarding retirement plans, then the goal must also be equity with private industry regarding pay. We cannot choose equity only when it results in a loss for Federal employees, and ignore equity when it would result in a gain.

A retirement system should be considered in the context of human resource management policy. Proposals such as raising the retirement age are contradictory to efforts to downsize and streamline the workforce. And Federal employees who will be left to do

more with less, to provide better customer service, to untangle the thicket of government regulations, to develop a results oriented culture, to operate in a teamwork environment, ought not be demoralized by changing the terms of their retirement system.

In the subcommittee's review of the Federal employee retirement system as a potential source of savings, SEA urges the subcommittee to adopt one principle, namely, any changes considered should not affect current employees. We can neither afford a demoralized workforce, nor a compensation plan which is unattractive and changes so often that quality candidates are deterred from Federal service.

Changes affecting current employees will force out the more talented, experienced, better performing members of the workforce who are able easily to find employment elsewhere.

Our recommendations are as follows. If you must change the rules of the game, then change them for those not yet on the field, namely, new employees. We recognize that so limiting changes will result in greater long term, and smaller short term, savings.

Two, we urge you to reject any changes to the CSRS since employees covered by CSRS are locked in that system. If the subcommittee considers requiring an increased employee contribution to the CSRS, then SEA would recommend increasing the contribution by 1 percent, but also adding 1 percent to Federal pay, with the requirement that agencies absorb the increased personnel cost.

Three, SEA does not object to a careful review of the construction of the CPI and consideration of any appropriate change, since retiree COLA's are based on the index. However, any changes to the construct of the CPI must be applied equally to all Federal entitlement programs.

With regard to COLA's generally, while private sector plans are often indexed on an ad hoc basis, the lack of indexation is often considered a significant flaw in the private pension system and not a feature to be emulated in the Federal system, as the Congressional Research Service has pointed out.

Specifically, however, SEA vigorously opposes any means test by which COLA's would be limited.

I can't stress to you too strongly the complete unacceptability of such a proposal, both to Federal career executives and managers and to Federal human resources policy. Means testing penalizes Federal employees for their length of service, for the level of responsibility that they attained in the civil service and for the achievements they accomplished. Means testing of COLA's, simply put, penalizes success. If there is one proposal that would be more demoralizing to the career executive and managerial corps, we cannot conceive of it.

If the Federal Government is to encourage talented, experienced employees to aspire to leadership positions, and to accept the risk attendant to such positions, we cannot diminish their retirement benefits on the basis of the positions they attain in their years of service.

Four, with regard to system reforms, SEA urges the subcommittee to implement the proposal in the administration's budget for agencies to begin to fund the unfunded liability of the CSRS. This is both appropriate and sound and deserves support.

Five, a further reform would be to provide actuarially reduced annuities at any age. This proposal, at no cost to the government, would further downsizing goals and enable employees to choose to retire who are otherwise constrained by age and years of service requirements.

In closing, I would respectfully remind the subcommittee that Federal employees enjoy a dual relationship with the Federal Government, as both employees and taxpayers. As taxpayers, they have been and will be affected by the changes Congress makes with regard to Federal programs and tax policy. So, they give at the office and they give at home, and I think often we forget that they give at home. I would be pleased to respond to your questions.

[The prepared statement of Ms. Bonosaro follows:]

PREPARED STATEMENT OF CAROL BONOSARO, PRESIDENT, SENIOR EXECUTIVES ASSOCIATION (SEA)

The Senior Executives Association (SEA) appreciates the opportunity to present our views before the Subcommittee on the civil service retirement system and options to reduce its costs. SEA is fully aware of the objective of the hearing, namely, to identify budget and system reforms, and we are prepared to present constructive suggestions with regard to those objectives. Nonetheless, we would be less than candid if we didn't point out several concerns for the record.

1) As has been noted by the Congressional Research Service and the Congressional Budget Office, growth in the federal civil service and military retirement programs will barely exceed inflation. Long term cost of federal civilian retirement will be attributable to the Federal Employees Retirement System (FERS), whose annuitants will be directly affected by any changes which might be made to Social Security. Further, insofar as the Executive Branch is currently downsizing, with a target reduction of 272,900 positions, "there is no demographic bulge looming on the horizon for these programs, either now or in the future" (July 14, 1994 letter of the Federal Government Service Task Force to Bipartisan Commission on Entitlement and Tax Reform).

2) Passage of FERS in 1986, following intensive study and congressional hearings, was intended to reform the federal civil service retirement system, replicating typical retirement plans in the private sector. Federal employees made the choice then to stay in the Civil Service Retirement System (CSRS) or to change their enrollment to FERS based upon the features of these systems. Any changes to CSRS or FERS for current employees or retirees would be grossly unjust since their retirement planning has been based upon these irrevocable decisions.

3) The civil service retirement system is not an entitlement program; rather, it is one component of a compensation system for federal employees. Reforming one component, namely, retirement, of a compensation system is unwise without considering the impact of any such changes on the compensation system as a whole.

To illustrate, SEA contracted with the Hay Group in 1993 to conduct a study comparing compensation of SES positions with that of comparable positions in private industry. A sample of SES positions (benchmarks) were selected (across a range of agencies, SES pay rates, and functions) from Hay's data bases of SES evaluated positions. Hay's job content evaluation points served as the basis for making compensation comparisons to the marketplace for 1992. That is, using Hay job content points as a common denominator, SES positions were compared to positions which Hay has evaluated in a wide variety of industrial organizations and service industries, as well as in some nonprofit organizations and local governments. Again in 1994, SEA contracted with the Hay Group to update the previous report on cash compensation by using 1994 data for both the SES and the comparator groups.

As was the case in the earlier study, benefits of Senior Executives (indeed, of all Federal employees) were higher than the mean of private industry benefits, primarily because of the higher value of the federal retirement plan. The fact that benefits are somewhat more valuable should not be surprising, since the federal retirement plan was designed in acknowledgement of the salary differential between the federal government and the private sector, and of the value of the annuity in attracting and maintaining a stable, high quality workforce.

[Note: Awards from stock options and similar programs, commonly referred to as long-term compensation, were excluded from the calculations in view of controversy over their valuation. Thus, the federal benefit "edge" was overstated.]

On the basis of cash compensation, pay for Senior Executives would have had to increase from 35% to 114% in 1994 to reach a par with comparable positions in private industry. The fact that Federal benefits are somewhat more valuable than private sector benefits had a relatively minor impact on the disparities seen in cash compensation. Total remuneration (pay and all benefits, including retirement) for Senior Executives would still have had to increase substantially—anywhere from 26% to 93%—to reach a par with comparable positions in private industry.

In essence, SEA would urge the Congress to be consistent—if the goal is equity with private industry regarding retirement plans, then the goal must also be equity with private industry regarding pay. We cannot choose equity only when it results in a loss for federal employees and ignore equity when it would result in a gain.

4) Studies have shown that the federal retirement system is not out of line with retirement plans of large corporations. For example, a Wyatt Company "Survey of Retiree Benefits Provided by Plans Covering Salaried Employees of 50 Large U.S. Companies as of January 1, 1994" reported that:

48 of 50 companies provided for retirement at 55/30.

The average benefit calculations as a percentage of final pay at 55/30 among the top 50 companies is 30.5% (contrasted with 30% of high 3 years average pay for FERS). (The range extends as high as 50% in the case of The Merck Company.)

39 of the 48 plans replace at least 25% of final year's pay.

With respect to provisions for periodic adjustment, Wyatt reported that, while PI pensions are not "indexed," many are "adjusted" every several years, often by year of retirement.

35 of the 50 companies surveyed increased benefits to retirees in the last 10 years;

9 companies gave at least 3 benefit increases during the same period;

19 companies have given an increase in the last 3 years;

While all companies may not provide regular increases, when increases are provided, the percentage increase is often sizable, e.g., Amoco provided a 30% maximum increase in 1989.

5) Further, large corporate plans are non-contributory. In contrast to CSRS, only 7 of 50 of the largest corporations in the Wyatt study require any employee contributions to their retirement plan.

It is also important to note that corporate plans are supplemented by Social Security. Federal employees, however, are limited in their Social Security benefits by application of the "windfall" reduction benefit computation for workers also receiving a pension from work not covered by Social Security and by the government pension "offset" for Social Security spousal benefits.

6) Finally, Civil Service annuities are fully taxable as ordinary income, in contrast to Social Security benefits.

Various civil service retirement reform proposals, such as raising the retirement age, are contradictory to efforts to downsize and streamline the workforce. It would be difficult for any federal employee to understand proposals which encourage employees to work longer (for example, by raising the retirement age or increasing the "high 3") at the same time that agencies are offering buyouts and may soon be required to consider RIF's to reduce the workforce.

A retirement system, then, must also be considered in the context of human resource management policies. Currently, as the Subcommittee is aware, federal employees are engaged in efforts to "reinvent government," to do more with less, to provide better customer service, to untangle the thicket of government regulations, to develop a results-oriented culture, and to operate in a teamwork environment. These changes are substantial and are occurring against a backdrop of examining the mission and programs of each agency. To demoralize a workforce so engaged, by changing the terms of their retirement systems, seems ill-advised, at best.

SOLUTIONS

Given the considerations enumerated above, one can reasonably conclude that the federal retirement system requires no change. The Subcommittee, however, is addressing a federal deficit problem, and, in that context, it is inevitable that federal employee compensation has become, once again, a potential source of savings.

SEA urges the Subcommittee to adopt one principle, namely, any changes considered should not affect current employees. Those employees who will remain after downsizing face enormous challenges to deliver for the American people. We can neither afford a demoralized workforce nor a compensation plan which is unattractive and changes so often that quality candidates are deterred from federal service. Changes affecting current employees will force out the more talented, experienced,

better performing members of the workforce who are able easily to find employment elsewhere.

1) Change the rules of the game for those not yet on the field, namely, new employees. We recognize that so limiting changes will result in greater long term, and smaller short term, savings. Specifically, for example, government matching of employee contributions to the Thrift Savings Plan could be reduced for new employees.

2) SEA urges the Subcommittee to reject any changes to the CSRS since employees covered by CSRS are locked in the system. If the Subcommittee considers requiring an increased employee contribution to the CSRS, then SEA recommends increasing the contribution by 1%, but also adding 1% to federal pay, with a requirement that agencies absorb the increased personnel cost.

3) SEA does not object to a careful review of the construction of the CPI and consideration of any appropriate changes, since retiree COLA's are based on the index. However, any changes to the construct of the CPI must be applied equally to all federal entitlement programs.

With regard to COLA's generally, while private sector plans are often indexed on an ad hoc basis, the lack of indexation is often considered a significant flaw in the private pension system and not a feature to be emulated in the federal system. Specifically, however, SEA vigorously opposes any "means test" by which COLA's would be limited.

I cannot stress too strongly the completely unacceptability of "means testing" COLA's, both to federal career executives and managers and to federal human resources policy. "Means testing" of COLAs, simply put, penalizes success. "Means testing" penalizes federal retirees for their length of service. It penalizes them for the level of responsibility they attained in the civil service. It penalizes them for the achievements they accomplished. "Means testing" goes totally against the grain of the American dream—to work, to aspire, to accomplish, and to be rewarded for one's contributions. If there is one proposal which would be more demoralizing to the career executive and managerial corps, we cannot conceive of it.

If the federal government is to encourage talented, experienced employees to aspire to leadership positions, and to accept the risk attendant to such positions, we cannot diminish their retirement benefits on the basis of the positions they attain and their years of service.

4) With regard to system reforms, SEA urges the Subcommittee to implement the proposal in the Administration's budget for agencies to begin to fund the unfunded liability of CSRS. This is both appropriate and sound and deserves support.

5) A further reform would be to provide actuarially reduced annuities at any age. This proposal, at no cost to the government, would further downsizing goals and enable employees to choose to retire who are otherwise constrained by age and years of service requirements.

Mr. MICA. I thank you for your testimony, and now we'll turn to, and also welcome, Bruce Moyer, executive director of the Federal Managers Association. Mr. Moyer.

Mr. MOYER. Thank you very much, Mr. Chairman. Good morning. The Federal Managers Association appreciates this opportunity to come before you and the members of the subcommittee to present our views on budgetary savings that may be associated with the Federal employee retirement system.

I will, in the interests of the hour, attempt to summarize our statement and would ask that our full statement, Mr. Chairman, be entered into the record.

Mr. MICA. Without objection.

Mr. MOYER. Let me begin by saying, Mr. Chairman, that the Federal Managers Association is opposed to any further reduction in the value of Federal retirement benefits. We are not prepared this morning to endorse any proposals to reduce retirement benefits for executive branch civil servants. This is particularly brought before you this morning because of several pertinent aspects as to the Federal retirement system.

First of all, while Federal retirement is the fourth largest mandatory spending program, it is clearly a distant fourth. The three largest programs, Social Security, Medicare and Medicaid, make up

over 70 percent of mandatory spending, with the Federal retirement program constituting less than 5 percent.

Second, Federal retirement program spending is not contributing to increasing in the Federal deficit. According to the CBO, Federal retirement spending is expected to hold steady at just over 2 percent of all Federal outlays over the next 10 years.

Third has been already noted, Federal employees and retirees have already contributed more than $165 billion over the last decade toward deficit reduction through reductions in pay and benefits.

Fourth, in the last Congress, Federal retirement benefits were singled out for the second largest cut of any mandatory spending program.

And, finally, after a long and thorough consideration, the Federal retirement system was dramatically overhauled less than 10 years ago with the creation of the FERS system. That system is working well. We would suggest to you this morning if it ain't broke, don't fix it.

As a matter of sound public policy FMA believes that the Congress should focus first on proposals to make government more efficient and cost effective. We commend you, Mr. Chairman, for your thoughtful comments during the subcommittee's first hearing in early February. We agree with your criticism of the administration's reinvention efforts as having focused on cutting jobs before deciding what work should no longer be performed by the Federal Government.

Just as the administration put the cart before the horse in ordering workforce reductions before conducting a thorough review of what the government should do, Congress will head in a similar direction if it requires substantial retirement benefit reductions before first determining the optimum size and profile of the kind of Federal workforce it desires to have.

This is because the Federal retirement system, like all employee retirement systems, whether public or private, is first and foremost a workforce management tool. This carefully crafted management system allows the government to retain experienced workers, to promote turnover among employees in declining years of productivity, and facilitate promotion of younger workers moving up through the ranks.

Decisions about the direction, the size and the responsibilities of the future of the Federal workforce should be much more carefully crafted by this subcommittee before moving into the area of examining and potentially making changes to the Federal retirement system.

FMA continues to work with the Congress and the administration to find ways to better manage government employees and programs, and to find cost savings to make government cost less. And we have provided to you as part of our statement this morning, Mr. Chairman, a list of the recommendations that we had earlier provided to the National Performance Review. Those ideas, we believe, represent potential cost savings to the government that could help to deal with deficit reduction.

Finally, with regard to several areas that have been the subject of heightened interest by the Congress, we are very concerned

about proposals to increase the CRS employee retirement contributions from 7 percent to 9 percent because of their affect upon attrition and employee morale. We are very much concerned about the lack of evenhanded treatment of those covered under FERS and the CRS by such proposals.

Proposals to change the retirement annuity formula from the highest 3 years of salary to the highest 5 years also would negatively affect morale and the government's ability to effectively manage workforce attrition.

To the extent that the Congress desires to move its retirement systems from one based upon a pay as you go approach, as we have had in the past, to a prefunded approach, then we would support the administration's proposal to amortize trust fund liability over a 40 year period.

Additionally, we support legislation already introduced in the Congress to take the Federal retirement trust fund off budget.

In conclusion, Mr. Chairman, we cannot emphasize enough the importance of viewing changes in retirement benefits in terms of their impact on the government's ability to effectively manage workforce attrition and employee morale. The retirement system is first and foremost a workforce management tool. Changes to it must take account of all consequences. Thank you very much.

[The prepared statement of Mr. Moyer follows:]

PREPARED STATEMENT OF BRUCE L. MOYER, EXECUTIVE DIRECTOR, FEDERAL MANAGERS ASSOCIATION (FMA)

Mr. Chairman and members of the Subcommittee: My name is Bruce Moyer and I am the Executive Director of the Federal Managers Association (FMA). On behalf of the 200,000 managers and supervisors in the Federal Government whose interests are represented by FMA, I would like to thank you for inviting us to present our views to the Civil Service Subcommittee on budgetary savings associated with the Federal employee retirement system.

Let me begin by saying that FMA is opposed to any further reduction in the value of Federal retirement benefits. FMA is not prepared to endorse any proposals to reduce retirement benefits for Executive Branch civil servants.

Before I proceed, I would like to briefly highlight some facts about the Federal retirement system:

While Federal retirement is the fourth largest mandatory spending program it is clearly a distant fourth. The three largest programs, Social Security, Medicare, and Medicaid, make up over 70% of mandatory spending. The Federal retirement program constitutes less than 5%.

Federal retirement program spending is not contributing to increases in the Federal deficit. According to the Congressional Budget Office (CBO), Federal retirement spending is expected to hold steady at just over 2% of Federal outlays over the next 10 years.

Federal employees and retirees have contributed more than $165 billion over the last decade toward deficit reduction through reductions in their pay and benefits. The 2.2 million Federal retirees and their dependents have contributed $40 billion of this amount mainly through delays or elimination of cost-of-living-adjustments (COLAs). (Please see the attached chart.)

In the last Congress, Federal retirement benefits were singled out for the second largest cut of any mandatory spending program. The 1993 budget agreement (P.L. 103–66) reduced Federal retirement benefits by $9.6 billion over a 5-year period by: delaying retiree COLAs until April in 1994–1996 ($788 million); eliminating the lump sum annuity option ($8.7 billion); applying Medicare Part B limiting charges to retirees 65 or older that do not have Medicare Part B ($77 million); and by changing the deposit requirement for retirees who elect the survivor benefit after retirement ($7 million).

After a long and thorough consideration, the Federal retirement system was dramatically overhauled in 1986 with the creation of the Federal Employees Retirement System or FERS (P.L. 99–335). The FERS, which covers all employees

hired after December 31, 1983, is modeled on retirement private sector retirement plans. The FERS is also carefully designed to approximate benefits available under the Civil Service Retirement System (CSRS), encourage workers to save for their own retirement and to save the government money. FERS retirees do not receive COLAs until they are 62, and they will receive less generous COLAs than CSRS retirees. The minimum retirement age for FERS workers will rise to 57 by the year 2026. At this time last year, 47% of employees were covered under the CSRS and 42% were covered under the FERS.

As a matter of sound public policy, FMA believes that the Congress should focus first on proposals to make government more efficient and cost effective. We commend you Mr. Chairman for your thoughtful comments during the Subcommittee's first hearing on February 7. FMA agrees with your criticism of the Vice President's reinvention efforts as having focused on cutting jobs before deciding what work would no longer be performed by the Federal government.

Just as the Administration put the cart before the horse in ordering workforce reductions before conducting a thorough review of what government functions should no longer be performed, Congress will head in a similar direction if it requires substantial retirement benefit reductions without first determining the optimum size and profile of the Federal workforce. The Federal retirement system, like all employee retirement systems, is first and foremost a workforce management tool. This carefully crafted management system allows the government to retain experienced workers, promote turnover among employees in declining years of productivity and facilitate promotion of younger workers up through the ranks. FMA believes that decisions about the direction, size and responsibilities of the future Federal workforce should be more fully developed before any decisions to change the Federal retirement system are made.

At a time of unprecedented uncertainty among Federal managers about their role in the future Federal workforce, FMA believes that now is precisely the wrong time to reduce Federal retirement benefits. The role of managers and supervisors will change dramatically over the next few years. The average ratio of managers and supervisors to employees is scheduled to double between now and 1999 from 1 to 7 to a ratio of 1 to 15. In addition, managers' and supervisors' spans of control will increase as they are required to take on more responsibilities with the elimination of personnel support positions and the devolution of management decision making to front-line supervisors. In order for Federal restructuring efforts to succeed, Federal employees must feel that they are part of the process and that they are assets in which their employer has invested, not costs which must be contained.

FMA continues to work with the Congress and the Administration to find ways to better manage government employees and programs. (Please see the attached list of recommendations FMA made to the Vice President's National Performance Review.) As American citizens first and civil servants second, FMA members want a government that provides services in the most cost effective manner possible.

EXAMINATION OF BENEFITS

While FMA continues to remain strongly opposed to further reductions in Federal retirement benefits, we recognize that there is heightened interest in Congress in this area. With this in mind, let me take this opportunity to comment on some of the major proposals and offer our perspective on issues that need to be addressed when examining the Federal retirement system.

Raising Employee Contributions To The Retirement Fund

FMA is very concerned about how proposals to increase CSRS employee retirement contributions from 7% to 9% of their annual earnings would affect workforce attrition and employee morale. If done immediately, such an increase would cost the average worker about $4,000 over 5 years. A GS–9 step 1 employee would lose about $3,100 over 5 years and a GS–15 step 10 employee would lose almost $10,000 over the same period if this proposal were enacted. (Please see attached chart.) Since employees would be paying more for the same benefit, this proposal would essentially represent a "negative incentive" causing workers to leave the Federal government. FMA believes that this is not a responsible method for managing workforce attrition. Efforts to use an uncontrolled "stick" rather than a targeted "carrot" approach to increasing workforce attrition will only insure that the Federal government will drive out the best and brightest, i.e., those who could most quickly and easily find alternative employment.

While the compensatory loss associated with this proposal would seriously erode employee morale, FMA's main concern is the potential of this proposal to send a negative message to the workforce that they are being singled out for a payroll tax that would not apply to anyone else.

Moreover, FMA is concerned about the lack of evenhanded treatment of those covered under the FERS and the CSRS. As you know, Mr. Chairman, employees covered under the FERS derive their benefits from three sources; Social Security, a Federal pension, and the Thrift Savings Plan. FERS employees pay a Social Security tax of 6.2% and .8% of their earnings into the retirement trust fund, as compared to CSRS employees who pay 7% of their pay into the retirement trust fund. While increasing both CSRS and FERS contributions by 2% would result in the same immediate out-of-pocket expense for the two classes of employees, FERS employees would be paying for a smaller pension component of their retirement benefit.

Increasing "High-3" to "High-5"

Proposals to change the retirement annuity formula from the highest three years of salary to the highest five years of salary would also negatively impact employee morale and the government's ability to effectively manage workforce attrition. Employee morale would suffer under this proposal because the necessity to produce budgetary savings within the first five years would require retroactive application and dramatic revision to the current workers' terms of employment. This would represent a serious breach of faith by the Federal government as an employer to its employees.

The government's ability to effectively manage workforce attrition also would be negatively impacted by this proposal in two ways. First, like the proposal to raise retirement contributions, this proposal would initially serve as a negative incentive for employees to leave the workforce before the "high-5" went into effect. Moreover it would initially encourage more highly skilled workers to leave the Federal service. Once the "high-5" went into effect, it would then encourage the remaining workers to stay in government service longer in order to make up for losses in expected retirement income. Providing a universal incentive to remain in government service would actually increase pay-roll expenditures as more highly-paid senior workers stay on to make up for lost retirement income.

CONGRESSIONAL RETIREMENT BENEFITS

FMA believes that any examination of Federal retirement benefits should include the retirement benefits given to members of Congress. If Congress plans to reduce benefits for Executive Branch employees, it should demonstrate its willingness to lead the way. Legislation introduced by Representative Glen Browder (D–AL), H.R. 907, would change Congressional retirement formulas to conform with those applied to Federal employees. Under current law, a member of Congress retiring at age 62 with 15 years of service could expect to draw an annual annuity of $50,100. A comparably paid Level II Executive Branch employee retiring at the same age with the same amount of service could expect to draw an annual annuity of only $35,070.

40-YEAR AMORTIZATION OF CSRS UNFUNDED LIABILITY AND NORMAL-COSTING

Under current accounting procedures, agencies and employees each contribute 7% of employee pay to the CSRS Trust Fund. The Trust Fund currently has obligations totaling $857.5 billion. As a result of inadequate funding of the Trust Fund, it only had a balance of $317.4 billion at the end of FY 1993.

FMA is concerned about this situation and supports the proposal in the Administration's 1996 budget to amortize the $540 billion unfunded Trust Fund liability over a 40-year period. The budget ammortizes the unfunded liability by increasing the existing payment from the general fund to the retirement fund each year, beginning in 1997. Since the payment would be an intra-governmental transfer, it would not affect the deficit.

The Administration also proposes to introduce normal-costing for CSRS contributions to the Trust Fund. (FERS contributions are already normal-costed.) This would be accomplished by increasing agency contributions to the Trust Fund by 11%. In combination with the employee contribution, which remains at 7%, the higher agency contribution would fully fund the cost of employee retirement benefits.

The change in the agency contribution rate would add $4,200 for each CSRS employee with an average salary of $38,000. To avoid putting pressure on agency salary and expense accounts, the Administration's proposal would adjust the discretionary spending cap to hold agencies harmless for the increased contribution rate. FMA supports this approach.

TAKE THE RETIREMENT TRUST FUND OFF-BUDGET

FMA supports legislation introduced by Representative Michael Bilirakis (R–FL), H.R. 103, to take the Federal retirement trust fund off-budget. It is our belief that this legislation would appropriately protect earned Federal annuities from being raided for purposes for which they were not intended.

BENEFIT CHANGES SHOULD BE PROSPECTIVE

Federal employees join the Federal workforce with the understanding that their retirement benefits are a mutually agreed upon term of employment. Reducing Federal retirement benefits represents a serious breach of faith with the men and women who have devoted their working lives to serving the American public. Changes in retirement benefits, if ultimately necessary, should only apply to new hires.

CONCLUSION

In conclusion Mr. Chairman I reemphasize the importance of viewing changes in retirement benefits in terms of their impact on the government's ability to effectively manage workforce attrition and employee morale. The retirement system is first and foremost a workforce management tool. Changes to it must take account of all the consequences.

I want to thank you once again for inviting FMA to present our views to the Subcommittee on budgetary savings that may be required of the Government Reform and Oversight Committee. FMA looks forward to working with you this year to improve the ability of Federal managers and supervisors to cost effectively deliver goods and services to the tax-paying American public.

This concludes my prepared remarks I would be happy to answer any questions you may have.

Appendix 1. Changes Affecting the Pay and Benefits of Federal Employees

[In millions of dollars]

Year	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	Total
Reductions in scheduled pay increases	1,325.8	3,296.8	4,999.1	6,909.6	5,881.3	8,094.5	8,801.9	10,427	11,036.5	13,215.8	14,620	16,228	104,836.3
Delays in scheduled pay increases	....	....	....	375.2	329.3	....	317.2	239.8	510	475.4	573.3	636.3	3,453.5
Revisions in Federal employees health benefits program	....	380	380	705	980	980	980	980	980	980	980	980	9,305
Medicare taxes	....	....	600	800	900	1,000	1,000	1,000	1,000	1,000	1,000	1,000	9,300
Elimination of paid holidays from lump-sum	22	22	22	25	26	26	26	26	26	26	26	26	299
Revision in computation of GS pay—2,080 to 2,087 hours	....	....	....	130	131	65	65	131	131	131	131	131	1,046
Retiree COLA—elimination of 1% add-on	540	550	550	550	550	550	550	550	550	550	550	550	6,590
Revision of minimum benefit for disability retirement	49	49	49	49	49	49	49	49	49	49	49	49	588
Repeal of look back annuity guarantee provision	270	270	270	270	270	270	270	270	270	270	270	270	3,240
Semi-annual to annual COLA adjustments	....	430	430	430	430	430	430	430	430	430	430	430	4,550
Limitation of COLA to one-half the CPI for retirees under 62	....	....	180	203	203	203	203	203	203	203	203	203	2,007
Delay in COLA from June to December	....	....	....	362	1,116	1,525	1,525	1,525	1,525	1,525	1,525	1,525	12,153
Revision of eligibility requirements disab. retirement	140	140	140	140	140	140	140	140	140	140	140	140	1,680
Sequestration of COLA required by Deficit Reduction Act	....	....	....	....	....	534.5	534.5	534.5	534.5	534.5	534.5	534.5	3,741.5
Total	....	2,346.8	5,137.8	7,620.1	10,948.8	11,005.6	13,867	14,891.6	16,505.3	17,385	19,529.7	20,952.5	162,789.3

Source: Federal Government Service Task Force.

FMA Recommendations to the Vice President's National Performance Review

MANAGEMENT SYSTEMS

Continue promoting Total Quality Management. Reinforce real commitment—from the highest management levels—to make TQM and employee empowerment work. At the same time, hold managers accountable for results.

Confer to agencies rendering direct service to the public and funded by trust funds the discretion to hire that number of FTE's required to provide efficient and effective service. This would cost the Government nothing. Administration and Congressional limits on FTE's result in poor and inefficient service, creating backlogs in service and processing (for example, the Social Security Administration faces a severe backlog in its processing of disability appeals). This only results in an increase in complaints and creates unfavorable public opinion of the Federal government and its services.

Streamline and simplify time-keeping requirements in conjunction with quality improvement. The current policy of manual/paper timekeeping and certification is expensive. Employees should be empowered to keep track of their time and abusers should be handled quickly. Simplification of time-keeping requirements would enhance trustworthiness and promote employee loyalty.

Re-evaluate the present system of reimbursing employees for a permanent "change of station" move. Agencies typically enter into contracts with their employees for the reimbursement of their expenses in connection with their transfer from one geographic area to another, often in connection with a promotion. Moving and living costs are escalating, restricting agency capability to use transfers and permanent change-of-station moves as a valuable staffing tool.

Standardize DoD forms and formats in order to eliminate layers of publications and forms. Many facilities use DoD regulations, Air Force regulations, AFMC regulations, RAFB regulations, and organizational operational instructions and forms. In most instances the higher level publications and forms contain sufficient information in order to function. This layering of publications and forms leads to non-standard practices, endless hours of research, and millions of dollars in costs.

Revamp the temporary Travel Order/Voucher Reimbursement System. Many hours are spent in processing each travel order reimbursement voucher to ascertain actual allowances. Travelers should be permitted to complete their travel within allowable amounts and not be required to file a travel voucher. Thus no computation on each travel order would be required, nor would auditing of voucher processing be necessary.

ORGANIZATIONAL STRUCTURES

Promote joint service military depots. This would greatly reduce the number of duplicative facilities and achieve higher efficiency.

Restructure the Federal Aviation Administration as an independent, government corporation. An independent FAA with a fixed-term Administrator would advance the safety-oriented mission of the agency and better assure necessary, continued aviation leadership. FMA's proposal for the establishment of a restructured, independent FAA is attached.

Consolidate organizations that have similar missions and that do similar work. This would allow for the elimination of 50% of the administration costs.

For example, consolidate the Equal Employment Opportunity Commission and the Office of Federal Contract Compliance Policy in the Department of Labor. Additionally, the production of hydroelectric power could be consolidated into one agency. Hydropower production is now fragmented into agencies such as the Tennessee Valley Authority, Corps of Engineers, Bureau of Reclamation, and Bonneville Power Administration. Savings could be realized by combining support elements, sharing technology and pooling spare parts.

Transfer the collection responsibility for annuitant earnings under entitlement programs to the Internal Revenue Service. Social Security, railroad retirement and veterans benefits currently are reduced if an annuitant's earnings exceed established levels. Considerable government expense arises at the Social Security Administration, Railroad Retirement Board and Department of Veterans Affairs in the processing of annuitant earnings statements and related collection activities. Government savings could be achieved through the transfer of this collection responsibility from the Social Security Administration, the Railroad Retirement Board and the Department of Veterans Affairs to the Internal Revenue Service.

MISSION-DRIVEN BUDGETING AND FINANCIAL MANAGEMENT

Reward agencies for saving money, not punish them. Currently, agencies at the end of the year spend money on anything possible to avoid having unspent funds, for fear of reduced budgets in succeeding years. Instead, agencies should be rewarded for unspent funds, by allowing them to receive a credit in succeeding years for the funds they have "saved".

Establish a multi-year budgeting and appropriations process. Single-year funding is a roadblock to proper planning. Multi-year funding would allow for better budget management. During off-years when Congress would not need to consider appropriations legislation, Congress could devote greater attention to oversight.

Establish pilot projects using mission-driven, outcome-based budgets in agencies. Attach rewards to the achievement of agency performance goals.

Revise the current DoD policy which issues to each member of the reserves a full compliment of uniforms, just like any member of the active duty force. Reservists perform many of the same tasks as active duty personnel and are subject to being called to active duty. However, few reserve units have ever been activated. Reservists are in uniform about 60 days a year, and most of those 60 days are spent in two uniforms. The rest of the clothing is seldom, if ever, used.

Authorize new military construction only as consistent with newly revised military force structure plans. This would achieve cost-savings and avoid spending on unnecessary military facilities and related infrastructure.

Use frequent-flyer points for official travel. Require travel agencies servicing government accounts to track, on a facility or agency-wide basis, frequent-flyer points earned for official travel. Agencies could then "cash-in" those accumulated points for official travel to reduce costs.

Eliminate Foreign Tax Credits. According to the General Accounting Office, $24 billion would be saved by repeal of foreign tax credits that American firms receive for taxes they pay to foreign governments for off-shore operations.

Distribute funds to field activities on a timely basis. Operational funds are not distributed to field operating offices and units until well into the fiscal year. This prohibits reasonable planning by managers and results in inefficiencies in program execution.

Authorize Department of Labor offices which oversee compliance with Federal laws or regulations to establish fine scales for violations. The Department of Labor is currently authorized to impose civil money penalties for certain OSHA, MSHA, and Wage and Hour violations. Other programs within the Department, e.g., Office of Federal Contract Compliance Programs, cannot impose fines. Federal contractors are required to list all job openings with their respective state employment service. Currently, if they don't, OFCCP may cite noncomplying contractors, but not fine them. The Department of Labor should be able to more selectively impose fines to ensure compliance and be authorized to put the fine receipts in its agency budget.

Charge for technical assistance provided by Federal agencies to the private sector and Federal contractors. For example, Federal employees provide training to private sector employers on issues such as OSHA regulation, EEO rules, etc. At a minimum, companies should be required to cover the Government's expense of sending the Federal trainer to the company.

Authorize defense depots to engage in the manufacture and delivery of non-defense related goods to permit them to retain military-related workforce skills and infrastructure capabilities. This will permit depots to operate efficiently at capacity, while retaining the capability to "surge" to necessary production levels in the event of war or national emergency.

Reorient the procurement system to the concept of "best value" instead of lowest bid. The current approach of awarding procurement to the lowest bidder tends to result in cost overruns and claims against the government, which result in higher costs than had the award been given to higher bidders. This goes against our aim for quality and continues to reward poor performance.

Reform procurement policy/procedures in order to empower contracting officers/agency to exercise the authority to terminate a contract and sue companies that do not conform to contracts. Also mandate that the price of any cost overruns be assumed by the contractor instead of the Government.

Simplify Government procurement laws, rules and regulations for buying. Delink procurement with GSA and the DoD Supply Inventory System and authorize managers and activity supply/acquisition personnel to find the most competitive vendors for the purchase of replacement parts, supplies, etc, considering lead time, cost, quality, responsiveness. Frequently items are purchased at a higher cost because of excessive rules and regulations. Managers should be made accountable for operating within authorized budgets and authorized to buy the products and services they

need, irrespective of whether such products and services are in the government supply system. Current rules dictate that managers procure from the inventory system if the items needed are in the inventory system. Inclusion of a product in the inventory system most often means a low-bidder vendor and could represent less-than-superior quality. There are too many operating systems and personnel involved between the manager with the workload assignment and the vendors supplying parts and services. Managers, to be effective and efficient, must have the discretionary authority to seek the most competitive market prices.

PERSONNEL

"Rightsize" smartly. Expand the use of resignation and separation incentives in downsizing departments and agencies. Expand the Priority Placement System and improve efforts to place displaced Defense Department and other Federal employees in agencies that are hiring or filling vacancies.

Reform the performance appraisal system. Use a two-step rating method that would classify performance as either acceptable or unacceptable. Administrative action would be required from the supervisor only if a rating was to be unsatisfactory. Paperwork would be reduced to a minimum and complaints that normally result from appraisals would be almost non-existant.

Expand and improve training and career development programs for Federal personnel. Such programs represent investment in the "human infrastructure" of Government. Require Federal agencies to devote at least 1.5% of their salary and expense accounts to training and career development.

Broaden the use of resignation and separation incentives throughout Federal departments and agencies to "rightsize" and reduce staffing levels. Currently, only Defense Department activities possess the statutory authority to use resignation and separation incentives. The expansion of such authority will stimulate attrition and cause retirement-eligible and early eligible executives and managers to retire, making room for younger workers to remain.

Revise the Federal Employee Compensation Act to address inequities and reintroduce incentives to return employees to work following an on-the-job injury. Transferring long-term FECA recipients at some point to a "retired" status would offer significant government savings.

Increase informal methods of employee dispute prevention and resolution; unify appeal forums to a single agency; centralize judicial review. The current framework for resolving grievances and appeals of Federal personnel actions is confusing, complex and costly. At least four different Federal agencies possess adjudicatory responsibilities in this area. Judicial review can proceed in different forums as well.

Decentralize staffing rules and procedures. Replace the current staffing system with agency-specific systems, operating under Government-wide principles. Make it easier for managers to hire and promote, to create and maintain a quality, diverse workforce.

INFORMATION TECHNOLOGY

Standardize and increase the number of computers in the Federal workforce. Increasing the use of electronic information will cut paper, printing and postage costs. It should also reduce the need for clerical employees.

Effect On Employee Salaries of Increasing Retirement Fund Contributions

	1996	1997	1998	1999	2000		
Average Federal Employee:							
$38,000.00	$38,912.00	$39,884.80	$40,881.92	$41,903.97	$42,951.57		
$38.000.00	$38,133.76	$39,087.10	$40,064.28	$41,065.89	$42,092.54		
	$778.24	$797.70	$817.64	$838.08	$859.03	$4,090.69	5 yr. loss
GS–9 Step 1:							
$29,400.00	$30,105.60	$30,858.24	$31,629.70	$32,420.44	$33,230.95		
$29 400.00	$29,503.49	$30,241.08	$30,997.10	$31,772.03	$32,566.33		
	$602.11	$617.16	$632.59	$648.41	$664.62	$3,164.90	5 yr. loss
GS–15 Step 10:							
$91,600.00	$93,798.40	$96,143.36	$98,546.94	$101,010.62	$103,535.88		
$91,600.00	$91,922.43	$94,220.49	$96,576.01	$98,990.41	$101,465.17		
	$1,875.97	$1,922.87	$1,970.94	$2,020.21	$2,070.72	$9,860.70	5 yr. loss
Pay Raise	2.40%	2.50%	2.50%	2.50%	2.50%		

1) Assumptions
2) This analysis assumes an immediate increase in employee contributions to the retirement fund from 7–9% beginning in 1996.
3) No assumption has been made for scheduled within grade pay increases.
Source: Federal Managers Association

Mr. MICA. I thank you for your testimony and for your participation today. We've heard from almost all of our witnesses and, individuals who represent various associations and interests have all said we don't want any of our benefits decreased. I think there is unanimity among the panelists and most of the Members of Congress not to reduce benefits.

We've also heard Ms. Bonosaro today. I ask that we defer any changes in rules to affect new employees. The reality of it is we actually probably have fewer new employees when we're in a position, of downsizing 272 on one side, and 500,000 on another side; and in this bidding war to downsize our Federal workforce.

We actually will not be affecting many folks in a realistic fashion, No. 1, because there won't be too many new ones coming into the system. And, second, we're downsizing the system which is one of the things that I'm trying to anticipate the effects on, particularly CSRS. The FERS, as we know, is fairly sound.

I've also heard your recommendation that we increase Federal pay 1 percent and then have the agencies fund the 1 percent, but that doesn't really do anything to the balance sheet that we're trying to achieve. There are two questions. The $540 billion unfunded liability that CSR has, and then the question of the monthly or annual liability of $1½ billion or $19 billion to the taxpayer, which is part of the larger question here.

We're not talking about the collapse of the Federal retirement program. We're talking about the collapse of the Federal Government. And the basic question at hand is in meeting those fiscal responsibilities.

So given those choices, where do we go? Do you not feel that we have any obligation on the employees to also help keep the ship afloat?

Mr. MOYER. We have an obligation to keep the ship afloat, and we don't believe there are any icebergs out there that are going to render damage to the ship. The Congressional Research Service has——

Mr. MICA. But you're dealing again with FERS and even in your testimony, Ms. Bonosaro, you referred to the monthly contribution or annual contribution from the Federal Government to make up the deficit in the CSRS system, which we're talking about $19 billion a year coming out of the general Treasury.

The whole point of what we will be doing in several months here is trying to bring some balance and order to that general picture. The whole system here is on a life support system from a patient that is in intensive care and critically ill, and could be diagnosed as terminal. So what we're trying to do is save the whole operation beyond just this simple question.

So what do we do?

Ms. BONOSARO. We are not—and I trust you will understand that we are not unsympathetic to concerns regarding the budget deficit. Obviously, again, as individual taxpayers we are all concerned about that. Our view has been, as the Federal Managers Association I believe is, as well, that program cuts where the Congress chooses to make them—to discontinue programs, to cut programs, to change policies—are entirely appropriate. And that is the judgment that needs to be made.

And where there are program cuts to be made, we would see attrition in the Federal Government that is program related. And that has been our concern, as well, with regard to the employment cuts. And we are not convinced that there is an infinite amount of doing more with less that the Federal workforce is able to do.

So, with regard to the deficit, obviously we support program cuts. I think we also have to recognize that this is not the first time that Federal employees have been looked to over the years for contributions, if you will, when we were not in as bad shape as we are with regard to the deficit, while other programs have not been so dealt with.

So at the risk of seeming as though we are another one of, "Not in my backyard," I think we have to tell the subcommittee in fairness what we think is the case.

Our proposal with regard to increasing the pay to enable employees to absorb—if you were to increase contributions to the retirement system was that the agencies would absorb that 1 percent pay increase. The administration has proposed a budget which provides funding this year for the pay raise, unlike many other years, where agencies had to absorb pay increases. I know this is not a happy prospect, but that is what we are suggesting. And therefore, it would make a difference on the ledger, if you will.

Mr. MICA. But it really doesn't make any difference in the net loss. I mean, if we're adding 1 percent in employee compensation and we're taking 1 percent out from the agency?

Ms. BONOSARO. But I'm suggesting that you not fund that, that you not provide additional appropriations for that 1 percent.

Mr. MOYER. I'd like to re-emphasize this point that the Federal employees have already—far in advance of Social Security recipients who are, as has been acknowledged earlier, have been treated in a different manner than Federal employees—Federal employees have already contributed $165 billion toward that problem that is driving your attention, the deficit.

And now to come back again and to ask that segment of the population, who are, as well, taxpayers, who are taxpayers first and Federal employees second, is certainly inequitable and inconsistent with the fair minded approach that the Congress consistently directs its attention to.

Mr. MICA. Again, the question at hand ends up being do we tap all of the taxpayers or do we ask for contributions from the individuals who will benefit in the long term from stability, not only of the system, but of the country. It has gotten to that point where now the fiscal viability of the country may be at stake if we don't start taking from all of these areas where we have losses.

This is one where we can identify $19 billion a year. And it either comes out of the Treasury or it comes out of employee contributions or reduced benefits or some other mechanism that isn't very tasteful. So we're not left with a whole lot of choices here.

It's my understanding, too, that the employee contribution has remained the same since 1969. Isn't that correct?

Mr. MOYER. That's correct. It's a percentage of pay, not in terms of a dollar amount, though.

Mr. MICA. Well, do you have any other suggestions? I know it's kind of painful to come before us and suggest anything that you

may take back to your association and not get their wholehearted support. But we're looking for recommendations for which direction to turn, and you're really not giving us any option or input as to how to fund this responsibility.

Mr. MOYER. Well, we certainly did not, in appearing before you this morning, desire in any way, Mr. Chairman, to be or appear uncooperative. At the same time, we believe that an insufficient dialog has occurred between the subcommittee and the employee organizations up to this point as to what options are clearly on your screen, which ones are required in terms of adding it up to a dollar amount, which as has already been noted, none of us really know at this point.

And just as we in working with the subcommittee on employee compensation 2 years ago at this point in the year worked cooperatively together was when we had a better understanding of what the options were, that the subcommittee itself was considering.

Mr. MICA. At this juncture we're looking at trying to stem some or part of the monthly and annual contribution which totals about $19.7 billion. And we're trying to find some way without cutting benefits or cutting any commitments that have been made in the past to try to get as close to stemming some of that loss from the general revenue and Treasury of the U.S. Government.

I don't even know if we can address the unfunded liability of CSRS. That is an even bigger question. But we do have some obligation to try to bring this in balance as we can, and look for some recommendation that we can give to the budget cutters.

We can let this get out of our hands, as I said in response to Mrs. Collins, or we can seek your input. So far, everyone is unanimous, don't cut any benefits, any commitments that have been made. That doesn't leave us with a whole lot of options.

We've got possibly increasing employee contributions. We've got tinkering with the Consumer Price Index and affecting everyone across the board. Are there other options out there? Are there other things that we should be looking at? Putting the burden and responsibility on the agency is something you've suggested we can look at—and not funding, that is a little different approach, which might force them to make some cuts.

I think that all of these actions are beyond this subcommittee, and are prompting what we're seeing today, the downsizing, the further drain and strain on CSRS. It's not going to be the FERS folks retiring and bailing out, it's going to be the CSRS people.

I don't want them to say 2 years or 4 years from now, "Chairman Mica undertook this responsibility and didn't act." Or 3 months from now when the budget cutters get hold of this and come up with some solutions that are very distasteful to you and your membership and you go back and say, "Hey, we should have done something and we didn't act."

So it's in that spirit and in light of those facts that I call you before us, not to put your head on a chopping block but to look at ways that we can avoid the execution by forces outside this subcommittee and do something constructive and make the patient survive both the retirement system and also the Federal system. When your folks wake up tomorrow morning and their dollar is only worth 75 cents, we've abused our responsibility.

There are things outside of this subcommittee driving what has prompted us to get into this mode and try to act in a responsible manner working with the minority and working with these different groups and associations. You have a very sincere panel here of people who represent huge constituencies of Federal employees and Federal retirees, and their interest is trying to service those people's interests.

So those are my comments to you. Again, as we continue in this process, we don't have any written formula for success. We're merely trying to ask you to help us participate in the process and not be victims of the process. So with those comments, if you want to respond you are welcome and I'll yield to our ranking member. Any comments?

Ms. BONOSARO. Well, I think it's always fair to ask us to go back and think again, and we may become inventive. I think our difficulty is that over the years we have tried to look ahead and think about what is the future of the civil service, what kind of a workforce are we going to have.

And from our particular perspective in SEA, pay has been a major problem, for obvious reasons. The disparity has grown so great. And our members, for example, did not receive the national comparability adjustment that the rest of the Federal workforce did this year. Now, a lot of them are retiring. In many agencies it is literally—I mean, the door doesn't stop swinging now.

And I think we're trying to put this issue into perspective and say where are we going to be with a loss of experienced, talented people who were supposed to lead whatever Federal programs are going to be left in place; and who are the people coming up the line and are they going to be terribly interested in working for an employer where the benefits are up for grabs.

A great number of our members remember the day that they were sworn into Federal service and they were given their little retirement contract. In fact, I think I still have it at home in a little safe box—for what purpose, I don't know—but they really viewed it as a contract. Many of them ask today, "How did we get to this unfunded liability? Where are my 7 percent contributions and how were they being invested? How could we have reached this point?"

Now, I recognize we can't turn the clock back, but from their perspective, I think you can understand those aren't unreasonable questions to ask. Obviously, with FERS we've got a great deal of portability and people are not going to stay in the Federal Government who are able to get employment elsewhere. And I think that's our concern, that we don't want to see government as the employer of last resort.

But we will go back and see if we can be inventive with regard to this committee's jurisdiction. I think the difficulty is when we are asked to focus solely with regard to the retirement system.

Mr. MICA. Appreciate your comments.

Mr. MOYER. I would underscore two points. We need to recognize that the nature of this deficit that you referred to in terms of the funding for the Civil Service Retirement fund comes about because of the acceptance, historically, as a policy consideration of the fact that the trust fund would grow annually as credits are entered to make up for past underfunding. And that the analyses that have

been done by respective congressional authorities shows that the fund has adequate resources to cover about 10 years of future benefit payments, even if no credit payments were to be entered into the fund.

If credits are entered every year, and official projections of trust fund balances show that the funding is more than adequate to cover benefit costs in perpetuity, as benefits are paid annually and credits are entered annually. If we want to move, though, to a prefunded system, then we need to amortize the cost over the longer term as has been suggested by the administration.

The very notion of this system as a defined benefit system requires that the employer is going to make a contribution, and that is at that level that you're suggesting it to be.

Second, as to the cost impact, I think we need to keep in mind that as we downsize and as there may be increased short term cost, we need to look at the long term cost savings that are associated with government, and to not at all fail to recognize the fact that we will achieve long term cost savings. And I think that that needs to be entered into the balance as we look at whatever short term costs are associated with that additional number of folks that may be retiring now due to downsizing.

Mr. MICA. I appreciate your response, and I'll yield to the gentleman from Virginia now.

Mr. MORAN. Thank you, Mr. Chairman. I'm glad that both Ms. Bonosaro and Mr. Moyer have contributed to this hearing, because sometimes we do treat executives different from the rank and file of the Federal service, and we certainly did in terms of the last pay adjustment.

I'm concerned that this is one more hit against Federal employees, executives obviously, on top of a lot of other things. One of the concerns is that while we are dramatically reducing the numbers of employees in the Federal workforce, we don't seem to be comparably reducing the functions, the requirements of the programs that have to be carried out. And so there is even greater pressure on those employees remaining.

The temptation must, therefore, be all the greater to take advantage of $25,000 when you seem so little appreciated and just leave. And particularly those who are most mobile, who would be in most demand in the private sector you would think would take that option. And it is a credit to Federal executives that not as many of them have as we might have expected.

But do you see people making those decisions in their own minds now? Do you see an instability, a point of departure from what has generally been a longterm commitment to the Federal service occurring within the ranks of people you represent?

Mr. MOYER. Absolutely, Mr. Moran. There is an unprecedented and heightened crisis with respect to morale and confidence in the future of the government to continue to be able to run. The jeopardy of hollow government, the potential if government is expected to do more with less and more with less and more with less. It is putting, along with increased supervisory ratios, incredible strain upon executives, managers and supervisors, to the point where they ask what is the use. Why stick around and continue to make that contribution to the greater good of government when we're

getting hit in every direction, not only day to day in the services and responsibilities that they perform, but looking ahead, to the security of their retirement program.

Ms. BONOSARO. I think from our perspective, obviously, the executives that I know really love what they do and they care about what they do a great deal. I think it's quite clear they do, or they would never have stayed as long as they have when they're able to command higher salaries in the private sector.

I think there is certainly a sense of betrayal with regard to changes to the retirement system. These are people who, by and large, are currently in their 50's who can't go back and change their retirement planning strategies now.

So I think certainly given the challenges—and they're not adverse to challenges, whether it's reinventing government or reconsidering the mission of their agency or whatever it is—but I think they do reach a point where even their families say this is not reasonable anymore.

A great number of the senior executive service are in the field and are subject to and have been very often reassigned. The financial toll on their families is substantial, even with moving reimbursement costs, which we finally got some equity in a few years ago.

So I think it is more and more seen as a losing proposition. And the sad thing is the impact on younger people and the fact that so often these executives, I don't think, will not be inclined to recommend public service.

Mr. MORAN. I'm afraid that may be the case. I'm sure it's going to be more and more difficult to recruit people, particularly the best people for specifically skilled managerial and other positions when we have to take them from corporations who pay 100 percent of their retirement, plus they have Social Security, and we bring them into a system where they have to contribute toward their retirement.

And here when we talk about we're not going to increase anybody's taxes, except for one caveat, essentially what we're now considering is a tax increase from 7 to 9 percent. That's two-sevenths, that's a pretty high increase. What is that, about a 32-percent increment, isn't it? Because that's all it is, is a tax increase. You're going to pay an extra 2 percent and it's not going to go into the trust fund, into retirement fund, it's going to reduce the deficit.

So here as we found nobody else will get a tax increase, but it's with one caveat, Federal employees, we're going to hit them with a tax increase from 7 to 9 percent.

Well, I appreciate your testimony, and keep plugging and hang in there. We appreciate the people that you represent, particularly the good service they provide. Thank you.

Mr. MICA. I do want to echo the comments of our ranking member, that we appreciate your testimony, your participation, on this question and as we move forward on other important questions relating to civil service.

Thank you, and we will recess the panel until 1:15 p.m. Our other witnesses are tied up in an obligation until 1:15, and there are just a few minutes left in this vote. So I thank you again for participating.

Ms. BONOSARO. Thank you.

[Recess.]

Mr. MICA. We now reconvene the meeting of the Civil Service Subcommittee and move forward with our agenda. We have saved the third panel for last, the best panel for last here. We had to rearrange our schedule a little bit to accommodate that, but I'd like to call forward now as witnesses John Sturdivant, president of the Association of Federal Government Employees; Mr. Robert Tobias, president of the National Treasury Employees Union; and Mr. Louis Jasmine, president of the National Federation of Federal Employees.

Gentlemen, as is the custom with this investigations and oversight subcommittee, we do swear in our witnesses, so I'd like you to please stand if you would.

[Witnesses sworn.]

Mr. MICA. Let the record reflect that the witnesses answered in the affirmative. I do want to thank you again for taking this opportunity to be with us today.

You may have missed some of the testimony this morning, but one reason I have called this hearing is to ask that you all be participants in the process of looking at how we can solve some of the problems we have as far as funding our Federal retirement system. We do have some drain on the Federal Treasury, $1½ billion a month, $19 billion over the year. And we also talked this morning about $530 billion unfunded liability in the CSRS system.

Both concern us, and also in the vein of trying to take some preemptive action before we're told by other forces outside this committee and subcommittee how to address these problems. In previous comments and testimony, we heard a concern that benefits not be cut and that we keep our commitments to our Federal employees. You all represent a large number of Federal Government employees and, we invite you to be active participants not only today but throughout the process.

So with those few comments, I would like to again extend a welcome and call on John Sturdivant, the president of the Association of Government Employees for testimony.

STATEMENT OF JOHN STURDIVANT, NATIONAL PRESIDENT OF THE AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL–CIO; ROBERT M. TOBIAS, PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION (NTEU); AND LOUIS JASMINE, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES (NFFE)

Mr. STURDIVANT. Thank you, Mr. Chairman. I'm John Sturdivant, I'm the national president of the American Federation of Government Employees. On behalf of the 700,000 Federal and District of Columbia employees that our union represents, I appreciate the opportunity to testify before the subcommittee today and perhaps lay to rest some of the mistaken notions about Federal retirement that have left this program so vulnerable to being singled out for even more cutbacks. This is AFGE's first appearance before the Civil Service Subcommittee since the panel took on its latest incarnation and came under new management. And, Mr. Chairman, while we may take different position on some of the issues

that will be discussed today, and have been discussed today, I know how interested you are in hearing the cares and concerns of AFGE's members, and I appreciate the opportunity that you've given our union.

Recent discussions about imposing further reductions on Federal retirement have greatly unnerved AFGE's members. To start with, Federal retirement is an earned benefit, it's not charity. Retirement annuities are part of Federal employees' overall compensation, and they make a part for salaries that have proven to be significantly less than those for comparable jobs in the private sector. Further, Federal retirement represents a sacred contract between Federal workers and their employer. It's understandable that proposals to break this sacred contract have aroused both fear and anger among AFGE's members.

Federal retirement annuities are modest. The average monthly annuity earned by a Federal retiree is only $1,468; and after taxes and out-of-pocket costs of health care and life insurance premiums the average yearly income for the Federal retiree drops to below $14,000. The Federal retirement system is comparable to those used by large private sector firms that also have highly skilled, often college-educated employees.

And I've read in the papers some of your considerations that we hear about. I know that some Members of Congress are actively considering proposals for cutting Federal retirement. In fact, the legislative drafters are probably turning these proposals into legislation even as I speak. Nevertheless, let me address some of those proposals. Contrary to popular opinion, COLA's do not increase annuities for retirees in terms of buying power. Rather, such periodic adjustments, tied to documented increases in the Consumer Price Index, prevent inflation from reducing retirement annuities. Income security is an effective protection against poverty among our nation's elderly both as a humane gesture, and because poverty entails other social costs, protecting the real value of earned annuities is sound economic policy. And as I've talked before, in the many, many times I have testified on this issue, you want to reduce the COLA's—hold down inflation and you wouldn't have a problem with COLA's.

Proposals to raise the retirement age are based on two erroneous notions. First is that the majority of American workers outside the Federal Government are ineligible for full pension benefits before the age of 65. Quite simply, this is not true. Nine out of 10 private sector pension participants can retire at age 55 or earlier. And according to the Wyatt Co., a benefits consulting and actuarial firm, only 2 of the Nation's top 50 companies don't provide for early retirement benefits at age 55 or earlier.

We've seen some additional proposals requiring CSRS employees to increase their contributions to the trust fund from 7 percent to 9 percent, changing the formula for determining for earned—actually requiring employees to increase their contributions is what we would consider to be a middle class tax increase. We oppose that.

These and other cuts are likely to be cloaked in the language of restructuring or the rationale for making Federal retirement even more like private sector pensions. But the record is clear and the facts are unmistakable. Federal retirement is already comparable

to the pensions of large employers in the private sector with highly skilled, well-educated workforces. And annuities earned by Federal retirees are both modest and comparable to the pension benefits of their non-Federal counterparts. That such cuts will be proposed nonetheless reflects not upon the merits of the Federal retirement system, but rather upon the political vulnerability of Federal employees.

I would probably just go ahead and conclude my statement, Mr. Chairman, and ask that my entire statement be included in the record. There is a lot of other verbiage here, but I think that you get our point. We were asked to come up here and talk about reforming the Federal retirement system. I think we ought to just put it out on the table. As far as we're concerned, reform is a euphemism for cuts, reductions and delaying of benefits.

With all good sense, I would just have to say that we've opposed these cuts, we've opposed these delays, we've opposed these reductions, we've fought against those in the past and we will fight against them in the future.

[The prepared statement of Mr. Sturdivant follows:]

Prepared Statement of John Sturdivant, National President, American Federation of Government Employees, AFL–CIO

INTRODUCTION

Mr. Chairman and Members of the Subcommittee: My name is John Sturdivant, and I am the National President of the American Federation of Government Employees, AFL–CIO. On behalf of the more than 700,000 federal and District of Columbia employees our union represents, I appreciate this opportunity to testify before the Subcommittee today and perhaps lay to rest at least some of the mistaken notions about federal retirement that have left this program so vulnerable to again being singled out for even more cutbacks. This is AFGE's first appearance before the Civil Service Subcommittee since the panel took on its latest incarnation and came under new management. And, Mr. Chairman, while we may take different positions on some of the issues that will be discussed today, I know how interested you are in hearing the cares and concerns of AFGE's members, and I appreciate the opportunity you have given our union.

FEDERAL RETIREMENT IS AN EARNED BENEFIT, NOT CHARITY

Recent discussions about imposing further reductions in federal retirement have greatly unnerved AFGE's members. Federal retirement is an earned benefit, not charity. Retirement annuities are part of federal employees' overall compensation packages and make up in part for salaries that have been proven to be significantly less than those for comparable jobs in the private sector.[1] Further, federal retirement represents a sacred contract between federal workers and their employer. In exchange for devoting their working years to public service, federal employees earn modest retirement annuities during the twilight of their lives. Therefore, it is understandable that proposals to break this sacred contract have aroused both fear and anger among AFGE's members.

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[1] The President's Pay Agent, *Report on Locality-Based Comparability Payments for the General Schedule* (1994), p. 19. Federal employees' salaries, depending on the location, are anywhere from 13% to 43% lower than those paid private sector and state and local government employees who perform comparable work. The profound pay gap between the federal government and private sector workforces has been documented in numerous studies by the Bureau of Labor Statistics. In 1990, responding to fears that the government would be unable to recruit and retain qualified employees due to the inferiority of federal pay, Congress and President Bush agreed to close the gap over nine years through the mechanisms included in the Federal Employees Comparability Act (FEPCA). At that time, the gap was likely a whopping 30%. Because FEPCA has been unable to remove politics from the process by which federal employees are to be paid more equitably, the pay gap appears to have been reduced by only 3%, perhaps as much as one-half less than intended by President Bush and the Congressional Republicans and Democrats who supported the legislation.

FEDERAL RETIREMENT IS ANALOGOUS TO PRIVATE SECTOR PENSIONS

We must distinguish federal retirement from social welfare or income transfer programs. Federal retirement annuities are tied directly to years of service to a single employer. They are not part of the social "safety net" available to all citizens who meet certain age, income, or health requirements. Federal retirement annuities are part of the compensation package available only to those who work for the federal government.

The correct analogue for federal retirement is not Social Security, Medicare, or Medicaid. Rather, it is private sector pensions. Federal employees are entitled to annuities from the federal retirement system in exactly the same sense that their private sector counterparts are entitled to pension payments from their employers' retirement plans. After satisfying an explicit set of requirements regarding length of service and age, federal retirees become eligible for and entitled to annuities. Like all pension plans, the income to be received by federal retirees is a form of deferred compensation earned over their working lives. In fact, the federal retirement system was dramatically restructured in 1986 with the creation of the Federal Employees Retirement System (FERS), which was designed by its Republican and Democratic creators to be even more comparable to private sector pension plans than its predecessor, the Civil Service Retirement System (CSRS).

RETIREMENT BENEFITS FOR MEMBERS OF CONGRESS ARE LARGER THAN THE EARNED ANNUITIES OF RANK-AND-FILE FEDERAL EMPLOYEES

I must also distinguish the earned annuities of rank-and-file federal retirees from the retirement benefits given to Members of Congress. Some incoming Members of Congress, and perhaps even some of their veteran colleagues, may be surprised to learn that Congressional retirement annuities are calculated differently from those of rank-and-file federal employees.

I do not bring this point to your attention because I begrudge the special level of retirement compensation Members of Congress receive. On the contrary, during my six years as AFGE's National President, I have had the pleasure and privilege of working with many Members of Congress, both Republicans and Democrats, and I know how difficult their jobs are and how hard they work to represent their states and districts, whether or not they vote to protect the legitimate interests of federal employees and their families. Considering the long hours, the relentless scrutiny of the media, the important service being provided to the American people, and the lack of job security, the special retirement compensation provided to Members of Congress is not at all out of line. However, the comparisons I am about to discuss should discourage Members of Congress from mistakenly extrapolating from their own experiences and assuming that the retirement system for rank-and-file federal employees is more generous than it actually is.

Because of a more generous accrual rate, on the one hand, and a more lenient length of service requirement, on the other hand, Members of Congress enjoy significantly greater retirement benefits than federal employees. As the Wall Street Journal pointed out, "Members' pensions replace 30% to 70% more of their salaries than is true for most other federal workers."[2]

Take, for example, a Member of Congress, a Level II Executive Branch employee, and a typical rank-and-file executive branch employee who are all 62 years of age and have compiled 15 years of service to their country. The Member of Congress and the Level II Executive Branch employee earn high-3 salaries of $133,600, while the rank-and-file Executive Branch employee (GS–8, step 10) earns a high-3 salary of $32,710. Under CSRS, the annual retirement income for the Member of Congress would be $50,100. The same figure for the Level II Executive Branch employee would be $35,070. The rank-and-file Executive Branch employee would receive $8,586. Under FERS, the defined benefit for the Member of Congress would be $34,068. The same figure for the Level II Executive Branch employee would be $22,044. The rank-and-file Executive Branch employee would receive only $5,397. (Please see Appendix 2 for a more detailed discussion.)

[2] *The Wall Street Journal*, "Congressmen Squirm As Their Fine Pensions Come Under Spotlight," (January 26, 1995), p. A1.

THE FEDERAL RETIREMENT SYSTEM IS FINANCIALLY SECURE AND FISCALLY RESPONSIBLE

Unlike Medicare or Medicaid, federal retirement is a stable program[3] and one that is not contributing to increases in the federal deficit. During the last ten years, the earned annuities paid to federal retirees have held steady at slightly over 2% of total federal outlays.[4] As for the future, the Congressional Budget Office recently revealed that federal retirement will not grow as a percentage of the Gross Domestic Product for the full duration of its ten-year forecast.[5] The Bipartisan Commission on Entitlement and Tax Reform, a panel no Member of this Subcommittee would consider to be a mouthpiece for federal employees, grudgingly admitted that federal retirement spending is indeed under control.[6]

FEDERAL RETIREMENT ANNUITIES ARE MODEST

The average monthly annuity earned by a federal retiree is only $1,468.[7] After taxes and the out of pocket costs of health care and life insurance premiums, the average yearly income for a federal retiree drops to below $14,000. Contrary to widespread allegations, the average federal retiree is actually worse off than the average retiree. The average before tax income of all U.S. retirees is $19,371,[8] almost $2,000 more than the before tax annual annuity of federal retirees. Needless to say,

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[3] The Civil Service Retirement and Disability Fund (CSRDF) contained a surplus of almost $320 billion in FY 1993. (Office of Personnel Management, Civil Service Retirement and Disability Fund Annual Report (1994), p. 9.) In fact, CSRDF currently has nine times the reserves necessary to provide federal annuities as they become due. (Ibid.)

In making this particular point, let me take the opportunity to refute much of the ill-informed speculation circulating about the so-called "unfunded liability" of the federal retirement system. Such "unfunded liability" does not pose a budget problem for the government. It does not contribute to the deficit now, nor will it do so in the future. It is a purely bookkeeping artifice that represents the present value of the entire cost of retirement benefits for all current federal employees and annuitants, less CSRDF's assets and the present value of future employer / employee contributions to the Trust Fund. In other words, "unfunded liability" is an accounting concept that indicates how much money it would take to pay simultaneously the annuities for current and future federal retirees minus the Trust Fund's current assets.

This issue of unfunded pension liability is relevant only to private sector employers because such firms may go out of business. Federal law requires private sector employers to prefund future pension liabilities in order to protect their employees. Without this prefunding requirement, private sector retirees run the risk that their firm's income may be insufficient to pay the promised pension benefits. But as pointed out by the Congressional Research Service, "Governments are perpetual institutions that do not go out of business." (Congressional Research Service, Financing the Federal Civil Service Retirement Programs (1993), p. 6.) "Therefore, the government, as employer, does not need to "insure" itself against the risk of insolvency through full prefunding of its pension plans. Current and projected Trust Fund balances are fully adequate to back up all current and future liabilities without any effect on the budget or the deficit, and without a need for additional tax revenues." (Congressional Research Service, *Federal Employee Pensions and Private Employee Pensions* (October 1994), p. 9.

The Administration's FY 96 budget proposal demonstrates, at best, considerable confusion over the question of "unfunded liability" by inflating the cost of one retirement system and creating an illusion of crisis. I refer to the proposal to begin charging agencies the "true" cost of employees in CSRS and to amortize over 40 years CSRDF's "unfunded liability." This proposal creates the erroneous impression that CSRS is in a financial crisis. The implication is that it is too expensive, that its "unfunded liability" is really a deficit which needs immediate attention. Worst of all, by increasing the cost—if only on paper—it becomes more expensive to keep the program intact. In the harsh, zero-sum world of pay-as-you-go budgeting, where every federal expenditure competes against all others for funding, federal retirement's competitive position would be seriously undermined by this dubious proposal, and I urge Members of this Subcommittee to cast it aside.

[4] Congressional Research Service, *Financing the Federal Civil Service Retirement Programs* (1993), p. 4.

[5] *Statement of Robert D. Reischauer,* hearing of the Bipartisan Commission on Entitlement and Tax Reform (July 1994), p. 18.

[6] The Bipartisan Commission on Entitlement and Tax Reform, *Interim Report to the President,* p. 20. The Commission produced an interactive computer program, entitled "Budget Shadows," that "allows the user to create an individualized approach to entitlement reform." At the program's unveiling, Senator Robert Kerrey (D–NE), the Commission's chairperson, declared that a winning score was achieved if the contestant chose a series of options that prevents entitlement spending from growing as a percentage of the nation's Gross Domestic Product through 2030. By "Budget Shadows" own definition then, federal retirement is a winner. Nevertheless, many Members of the Commission treated federal retirement like a loser, singling it out for harsh cuts. It just goes to show that the facts don't matter when federal retirement is concerned

[7] Office of Personnel Management, *Statistical Abstracts: Federal Employee Benefit Programs (Fiscal Year 1993),* p. 10.

[8] U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditures in 1992* (December 1993), p. 14.

the nation's taxpayers should not lie awake at night, angrily gnashing their teeth, at the thought of federal retirees living carefree, idyllic existences at their expense. And if they do, it's only because they've been misinformed. Many scurrilous claims notwithstanding, the federal retirement system is comparable to those used by large private sector firms that also have highly-skilled, often college-educated employees.[9]

PROPOSALS UNDER CONSIDERATION FOR CUTTING FEDERAL RETIREMENT

I read newspapers, Mr. Chairman. I hear plenty of political gossip. And I know that some Members of Congress are actively considering proposals for cutting federal retirement. In fact, legislative drafters are probably turning those proposals into legislation even as I speak. Nevertheless, let me address some of those proposals.

1. Means-testing earned annuities

To the extent that they exceed the contributions employees make during their working years, earned annuities are fully taxable, obviating the need to impose a means-test.

Further, in order for means-testing to show significant savings, the threshold for either a reduction in earned annuities or even an outright elimination of eligibility for retirement benefits would have to be set very low. As was discussed earlier, earned annuities are actually quite modest and, as we know, will decrease over time as more federal retirees are covered by the markedly less generous FERS. The average CSRS retiree received an annuity of only $17,208 in 1992, before taxes and out-of-pocket costs for health care and life insurance premiums. For FERS retirees, the defined benefit before taxes and out-of-pocket costs for health care and life insurance premiums was $8,124.

Almost 80% of all federal retirees received little more than $20,000 per year, according to OPM. Surely, any fair cut-off point for eligibility based on income would have to exclude the vast majority of federal retirees. I think the Members of this Subcommittee have been around Washington, DC, too long not to know what will inevitably happen: in order to increase the revenue generated by such a mechanism, the threshold for the means-test will be lowered and lowered until it reaches moderate-income federal retirees.

2. Reducing federal retiree COLAs

Contrary to popular opinion, COLAs do not increase annuities for retirees in terms of buying power. Rather, such periodic adjustments, tied to documented increases in the Consumer Price Index (CPI), prevent inflation from reducing retirement annuities. This income security is an effective protection against poverty among our nation's elderly. Both as a humane gesture, and because poverty entails other social costs, protecting the real value of earned annuities is sound economic policy.

It is often said that private sector retirees don't receive "automatic" COLAs, so why should federal retirees? However, private sector retirees do in fact receive COLAs through the Social Security part of their retirement plan. There is, however, one crucial difference between the COLAs for federal retirees and the COLAs for private sector retirees: private sector retirees receive their Social Security COLAs on time. In 1995, for example, the COLA for federal retirees won't take effect until April; but the Social Security COLA for private sector employees kicked in promptly at the beginning of the year. The only thing "automatic" about COLAs for federal retirees is that they are regularly cut, cancelled, and delayed. Singling out federal retirees for sacrifice by requiring them to give up the annuity protection provided by their COLAs yet again is manifestly inequitable.

There has been considerable talk about correcting an alleged overstatement in the CPI's cost of living calculation ever since Federal Reserve Chairman Alan Greenspan claimed that the resulting change could "painlessly" cut programs like federal retirement by $150 billion over five years. Often ignored by those who urge that the CPI's calculation be changed is that Chairman Greenspan also admitted that the alleged overstatement is considerably smaller for older Americans due to their

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[9] CRS, using data supplied by investment banker Pete Peterson (a Member of the Bipartisan Commission on Entitlement and Tax Reform who happens to be a fierce and notoriously inaccurate critic of the federal retirement system), made a comparison of "private sector retirees and survivors receiving a pension plus Social Security with federal retirement and survivor benefits (which) shows that average private and federal benefits in 1986 were virtually the same ($1,045 per month for private sector annuitants versus $1,029 for federal civil service retirees)." (Congressional Research Service, *Federal Employee Pensions and Private Employee Pensions* (October 1994), p. 6.

greater need for health care. Still, unlike many of the cuts that have been suggested, changing the CPI is one that would appear to require programs besides federal retirement to make clarification in order to reduce the deficit.

Members of Congress who are determined to make drastic COLA cuts have threatened to zero out the Bureau of Labor Statistics, the agency which is responsible for preparing the CPI, if it does not immediately invent a calculation that is more to their liking. Such a tactic is clearly irresponsible. If the CPI does not accurately measure the cost of living, then it needs to be changed. But that determination should be driven by study rather than brinkmanship, reason rather than bluster, and economics rather than politics.

Finally, it must be noted that COLAs are not unique to Social Security and federal retirement. As the Congressional Research Service reported recently, "(m)any plans give post-retirement increases that are not COLAs, per se, but increase benefits from time to time in a variety of different ways."[10]

3. Raising the federal retirement age

Proposals to raise the retirement age are based on two erroneous notions. The first is that the majority of American workers outside the federal government are ineligible for full pension benefits before the age of 65. Quite simply, this is not true. Nine out of 10 private sector pension participants can retire at age 55 or earlier.[11] And, according to the Wyatt Company, a benefits consulting and actuarial firm, only 2 of the nation's top 50 companies don't provide for early retirement benefits at age 55 or earlier.[12]

The second erroneous notion inspiring proposals to raise the retirement age is that federal employees don't work past the age of 55. Again, this is untrue. While federal employees can retire under CSRS if they have compiled 30 years of service to their country prior to reaching 55, they are actually retiring at an average age of 61.5 years. Compare that statistic with another one compiled by the Department of Labor which shows that the average age of retirement in the private sector is 62.[13] Much ill-informed commentary to the contrary, federal employees and private sector employees retire at almost exactly the same times in their lives.[14]

4. Reducing the federal government's matching contributions to the Thrift Savings Plan

The major differences between CSRS and FERS are that those who receive retirement income from FERS draw from three sources: Social Security; the retirement system trust fund; and the Thrift Savings Plan (TSP), to the extent they are able to participate. TSP maintains accounts for individuals which include a minimum agency contribution (1%), personal savings matched by agency contributions (up to 4%), and returns provided by investments in the approved funds. In contrast, CSRS benefits are paid exclusively from the Trust Fund. The two systems do not offer close to equivalent benefits unless FERS employees contribute substantially out of pocket to TSP.

Reducing the government's contribution to TSP would leave FERS employees even worse off. According to data collected by the Federal Retirement Thrift Investment Board, slashing the government's contribution to TSP would have the greatest negative impact on lower income employees. Five out of every six federal employees who contribute to TSP just up to the 3% level have annual salaries of less than $35,000.[15] In addition, any reduction in matching contributions to TSP puts the government in the perverse position of actually discouraging individuals of modest means from saving for their own retirement needs. Considering the importance placed on increasing private investment, I know that lowering the government's contribution to TSP may greatly concern many Members of the Subcommittee.

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[10] *Ibid.*

[11] U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Private Establishments, 1991* (May 1993), p. 79.

[12] The Wyatt Company, *A Survey of Retirement, Thrift, and Profit Sharing Plans Covering Salaried Employees of 50 Large U.S. Companies as of January 1, 1994* (1994), p. 13.

[13] U.S. Department of Labor, Pension and Welfare Benefits Administration, *Trends in Private Pension Plans* (1992), p. 266.

[14] According to CRS, the average age at which private plans permit retirement with "full" benefits is 62.2 years, only about 8 months more than the average age of 61.5 years at which federal employees retire voluntarily. (Congressional Research Service, Federal Employee Pensions and Private Employee Pensions (October 1994), p. 4.

[15] Federal Retirement Thrift Investment Board, "Impact of Kasich/Penny Proposal to Reduce TSP Matching Contributions," (1993), p. 4.

5. Additional Proposals for Cutting the Earned Annuities of federal Retirees

Some additional proposals include requiring CSRS employees to increase their contributions to the Trust Fund from 7% to 9% and changing the formula for determining an earned retirement annuity by using more than the customary highest three years of salary. These and other cuts are likely to be cloaked in the language of "restructuring" or the rationale of making federal retirement even more like private sector pensions. But the record is clear and the facts are unmistakable. Federal retirement is already comparable to the pensions of large employers in the private sector with highly-skilled, well-educated workforces, and the annuities earned by federal retirees are both modest and comparable to the pension benefits of their non-federal counterparts. That such cuts will be proposed nonetheless reflects not upon the merits of the federal retirement system, but rather upon the political vulnerability of federal employees.

CONCLUSION

When I was asked to come here today and provide my ideas for how federal retirement could be "reformed"—that is to say, how the earned annuities of AFGE's retirees, both present and future, could be slashed even further—I must admit to chuckling ruefully for a moment or two. Members of Congress need ideas about how to cut federal retirement the same way Rush Limbaugh needs assertiveness training.

The last fifteen years have been perilous indeed for federal employees and retirees. In that time, we have lost over $170 billion in the form of pay and benefit cuts.[16] By themselves, the 2.2 million federal retirees and their dependents have lost $40 billion, mostly through delayed and diminished COLAs. In fact, the Omnibus Budget Reconciliation Act of 1993, over the next five years, will cost federal retirees $12 billion in the form of delayed COLAs, elimination of lump-sum payments for new retirees, and modification of health insurance premiums.[17] Few groups, Mr. Chairman, have made greater contributions to reducing the deficit than federal employees and retirees.

What's particularly ironic about the determined "reform" effort we are seeing at the beginning of the 104th Congress is that the "mother of all reforms" was imposed upon federal retirement just a few short years ago with the creation of FERS, in 1986, which, as I mentioned earlier, was designed to make federal retirement even more comparable to private sector pension plans. In fact, it has been estimated that a FERS retiree must contribute to TSP anywhere from 2.8% to 10% of additional income merely to earn the annuity he would have received under CSRS. With salaries which lag significantly behind those in the non-federal sector, the assumption that federal employees in FERS will be able to set aside such significant fractions of their incomes is highly dubious. As such, the adoption of FERS represented a massive concession by federal employees in their retirement benefits.

Still, federal employees accepted the FERS reform, taking solace from the belief that the political and perceptual problems that left federal retirement so vulnerable would be corrected, and that they would finally be left alone to plan for their futures with confidence. But, as former President Reagan might say, here we go again. Some of the Members of Congress who will decide the fate of federal retirement are different. Some of the journalists covering this hearing are different. And some of the union presidents testifying today are different. But the problem remains the same: a retirement system that is as politically vulnerable as it is fiscally responsible and financially secure. In other words, it's deja vu all over again.

Some Members of Congress who are determined to cut earned federal retirement annuities are likely to pursue a divide-and-conquer strategy. "These cuts," they are likely to say soothingly, "will only apply to future federal employees, so current federal employees and retirees have nothing to fear." I am confident that AFGE members will ignore such blandishments. The annuities provided under CSRS and FERS, as we have seen, are already quite modest. Establishing a third class of retirees, who would receive even smaller annuities, is unfair to the men and women who yearn to serve in the federal government of tomorrow and will make it more difficult for agencies to recruit and retain the most talented employees, the ones that our nation needs if government is to continue being reinvented.

AFGE members want to be helpful and constructive in this latest effort to reduce the federal deficit, but painful memories of the Bipartisan Commission on Entitle-

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[16] Federal Government Service Task Force, "Changes Affecting The Pay And Benefits of Federal Employees" (1993). At the time of the chart's publication, the Task Force was a bipartisan legislative service organization.

[17] Congressional Research Service, *Entitlement Spending and OBRA 1993* (93–830) (September 1993), p. 2.

ment and Tax Reform linger. While Members of that Commission exhaustively reviewed and picked over programs like federal retirement and devised dozens of new and ingenious ways to cut our earned annuities, the panel never seemed to find the time to complete the other half of its mandate; how our tax system could be made more equitable.[18] Well, call me cynical, but I think it might have had something to do with whose ox was being gored. That was a very valuable cautionary lesson for those of us who had hoped that Congress would require all Americans to contribute proportionately towards deficit reduction.

AFGE understands that the Subcommittee will shortly be making recommendations for reductions in the federal retirement system. As we have always done in the past, our members will carefully review such proposals to ensure they recognize the extraordinary losses that federal employees and retirees have already experienced; acknowledge that federal retirement is comparable to the pensions of large private sector firms with similarly highly-skilled, well-educated workforces; and, most importantly, require that all Americans, rich and poor, sacrifice their special interests proportionately.

Since I have been asked to suggest ways by which federal spending can be reduced, let me take this opportunity to discuss an area of legislation that falls within this Subcommittee's jurisdiction: service contracting reform. As you know, Mr. Chairman, service contracting is the costliest part of federal procurement and one of the fastest-growing expenses in the entire federal budget. According to the Office of Management and Budget (OMB), federal service contracting costs the American taxpayers $105 billion every year.[19] That staggering sum is at least $25 billion more than the combined salaries and wages of every single federal employee.[20]

Are the taxpayers well-served by this explosive growth in service contracting? A mountain of evidence stacked up in one damning GAO report after another indicates that the answer is "No!" Only last year, GAO surveyed nine studies on service contracting and found that in each case savings, often substantial, could have been realized if the work had been done in-house.[21] Much of the explosive growth in service contracting can be explained by the agency personnel ceilings imposed by the federal workforce reduction law. As OMB reported, many agencies—including the Departments of Agriculture, Health & Human Services, Housing & Urban Development, State, Education, and Treasury, as well as the Environmental Protection Agency—said that each could have saved several millions of dollars by performing functions directly rather than having them performed by contractors but did not do so because either their requests to OMB to take on the necessary full-time employees (FTEs) were refused or the agencies were so sure such requests would be turned down that they were not even submitted.[22] In other words, even when it's been shown that it would save money for the taxpayers by keeping services in-house, the arbitrary personnel ceilings force agencies to waste money on inefficient service contractors.

Congress can continue to cut the jobs of federal employees, and make it necessary for agencies to contract out in order for the work to be done. However, as the OMB report indicates, this sort of "down-sizing" is actually leading to significant increases

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[18] The arguments for progressive personal income taxes and increased corporate taxes are well-known: they derive from the principle of taxation based on the ability to pay. Tax expenditures, which primarily benefit corporations and the wealthy, are a large source of revenue that can be tapped on that basis. According to GAO, tax expenditures, provisions of the tax code that represent foregone revenues to the federal government, totaled about $400 billion in 1993. (General Accounting Office, *TAX POLICY: Tax Expenditures Deserve More Scrutiny* (GAO/GGD/AIMD–94–122) (June 1994), p. 4.) Tax expenditures differ from direct government spending only insofar as they are hidden, implicit rather than explicit drains on the treasury. Most importantly, tax expenditures are identical to other federal entitlement programs in every respect except one: corporations and the wealthy are the biggest beneficiaries of tax expenditures, while working people and the poor receive little or no benefit therefrom. While some tax expenditures may have some merit, it is clear that all deserve much greater scrutiny.

[19] Office of Management and Budget, *Summary Report of Agencies' Service Contracting Practices* (January 1994), p. v.

[20] Office of Personnel Management, *Pay Structure of the Federal Civil Service* (March 1993), pages 12–13.

[21] General Accounting Office, *GOVERNMENT CONTRACTORS: Measuring Costs of Service Contractors Versus Federal Employees* (GAO/GGD–94-95) (March 1994).

[22] Office of Management and Budget, *Ibid.* "Agencies often assume that additional personnel will not be authorized and, therefore, there is no alternative but to contract for needed services. Several agencies requested that they be given more flexibility with respect to determining whether work should be performed by agency or contractor staff. Examples were reported where the government (based on the agencies' projections) could save several millions of dollars by performing functions directly rather than having them performed by contract."

in federal spending. If workforce reductions are necessary, then they should be driven by cuts in services, rather than personnel ceilings.

If Members of this Subcommittee are genuinely interested in saving money for the taxpayers and improving government services, I urge the panel to endorse a 10% reduction in the federal government's service contracting expenses. Such an initiative will save the American people $50 billion over five years, but without adversely affecting the performance of service contractors. According to The Washington Post, the mere prospect of competition at the Department of Energy has "already led some contractors to reduce costs by 15 percent to 20 percent."[23] Imagine the savings that could be generated if Congress insisted that service contractors cut that much waste, fraud, and abuse out of all their contracts!

Again, Mr. Chairman, AFGE members appreciate this opportunity to make their views heard at this hearing. This concludes my testimony. I would be happy to respond to any questions.

[23] The Washington Post, "Energy Department Plans Competition for Big Contracts" (July 7, 1994), p. A24. "The success of the department's strategy will not be known for some months . . . But Thomas P. Grumbly, the assistant secretary for environmental restoration and waste management, said the 'specter of competition' has already led some contractors . . . to offer to reduce costs by 15 percent to 20 percent. 'If implied competition will do that, imagine what real competition will do,' Grumbly quipped."

Appendix 1. Changes Affecting the Pay and Benefits of Federal Employees

[In millions of dollars]

Year	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	Total
Reductions in scheduled pay increases	1,325	3,296	4,999	6,909	5,881	8,094	8,801	10,427	11,036	13,215	14,620	16,228	104,833
Delays in scheduled pay increases	....	....	....	375	329	....	317	239	510	475	573	636	3,456
Revisions in Federal employees health benefits	....	380	380	705	980	980	980	980	980	980	980	980	9,305
Medicare taxes	....	....	600	800	900	1,000	1,000	1,000	1,000	1,000	1,000	1,000	9,300
Elimination of paid holidays from lump-sum	22	22	22	25	26	26	26	26	26	26	26	26	299
Revised computation of GS pay 2,080 to 2,087 hours	....	....	....	130	131	65	65	131	131	131	131	131	1,046
Retiree COLA elimination of 1% add-on	540	550	550	550	550	550	550	550	550	550	550	550	6,590
Revision of minimum benefit for disability retirement	49	49	49	49	49	49	49	49	49	49	49	49	588
Repeal of look back annuity guarantee provision	270	270	270	270	270	270	270	270	270	270	270	270	3,240
Semi-annual to annual COLA adjustments	....	430	430	430	430	430	430	430	430	430	430	430	4,730
Limit COLA to one-half CPI for retirees under 62	....	....	180	203	203	203	203	203	203	203	203	203	2,007
Delay in COLA from June to December	....	....	....	362	1,116	1,525	1,525	1,525	1,525	1,525	1,525	1,525	12,153
Revision of eligibility requirements in disability retirement	140	140	140	140	140	140	140	140	140	140	140	140	1,680
Sequestration of COLA required by Deficit Reduction Act	....	....	....	....	....	534	534	534	534	534	534	534	3,741
Total	2,346	5,137	7,620	10,945	11,005	13,867	14,891	16,505	17,385	19,529	21,031	22,702	162,969

Source: Federal Government Service Task Force.

APPENDIX 2. COMPARISON OF CONGRESSIONAL AND EXECUTIVE BRANCH RETIREMENT ANNUITIES

The formula for determining a federal retirement annuity is:
high 3 salary X years of service X accrual rate * = annual pension
Example: Three individuals age 62 retire after 15 years of service:
1) Member of Congress earning $133,600
2) Level II Executive Branch employee earning $133,600
3) rank-and-file federal employee (GS–8, step 10) earning $32,710

Under CSRS: high 3 salary X yrs. of service X accrual rate = annual pension
Member of Congress:
$133,600 X 15 X 2.50% = $50,100.00
Level II Executive Branch employee:
$133,600 X 5 X 1.50% = $10,020.00
$133,600 X 5 X 1.75% = $11,690.00
$133,600 X 5 X 2.00% = $13,360.00
Total = $35,070.00
rank-and-file Executive Branch employee:
$32,710 X 5 X 1.50% = $2,453.25
$32,710 X 5 X 1.75% = $2,862.13
$32,710 X 5 X 2.00% = $3,271.00
Total = $8,586.38

Under FERS: high 3 salary X years of service X accrual rate = annual defined benefit **
Member of Congress:
$133,600 X 15 X 1.7% = $34,068.00
Level II Executive Branch employee:
$133,600 X 15 X 1.1% = $22,044.00
rank-and-file Executive Branch employee:
$32,710 X 15 X 1.1% = $5,397.15

Mr. MICA. We appreciate your comments, Mr. Sturdivant, and without objection we will make your full comments part of the record. We appreciate your summarizing, also.

Next I'd like to turn to Mr. Robert Tobias, president of the National Treasury Employees Union. Mr. Tobias.

Mr. TOBIAS. Thank you very much, Mr. Chairman, and thank you for allowing NTEU to testify on this most important issue.

We're very concerned that Congress will once again attempt to, in the interest of balancing the budget or reducing the deficit or reducing the debt, further reduce Federal employee pay and retirement benefits which have already been reduced by $170 billion since 1981.

The Federal retirement system was substantially revised in 1986 to ensure that the Federal plan mirrored the private sector, and also that it created a stable, fully funded program. Implementation of FERS created a two-tiered system. New employees were required to be part of FERS, and older workers had the option of staying in the CSRS system. And Congress promised over and over and over again during the negotiations on the plan, during the floor debates and in the report language, that the 1986 revision would be

* The accrual rate is higher for Members of Congress than for Executive Branch employees. The CSRS accrual rate for Members is 2.5 percent for each year of service; for Executive Branch employees it is 1.5 percent for the first 5 years of service, 1.75 percent for the second 5 years of service, and 2.0 percent for all service over 10 years.

The FERS accrual rate for Members is 1.7 percent for the first 20 years of service and 1.0 percent for service over 20 years. For Executive Branch employees the FERS accrual rate is 1.0 percent for all service if the worker retires before age 62 and 1.1 percent for all service for workers retiring at age 62 or older. (See CRS Report for Congress 91–664 EPW, 9/11/91)

** Does not include Social Security or thrift savings plan because of the difficulty in making universal assumptions about these programs.

the last revision to the program and that Federal employees could count on it.

Federal employees made life decisions based on that promise. It's not as though the Federal retirement system creates rich retirees. The average Federal worker earns an annual salary of $35,254, and retires at 61.5 years of age after 30 years of service, to a retirement annuity of $17,616. That's not a lot of money after 30 years of service. Now, that money is fully taxed, unlike Social Security annuities.

In contrast, I would point out the average, before tax income of all U.S. retirees is $1,800 more than that received by the average Federal employee. Federal employees do not retire rich and they are eligible to retire at age 55 only after 30 years of service, standard private sector practice.

Mr. Chairman, Federal employees made a contract with the government and the American public when they took the oath of office, and they perform on that contract every day. We believe that Congress made a contract with us in the 1990 Federal Employee Pay Comparability Act, and the 1996 Federal Employee Pension Reform Act. We ask that Congress fulfill its promises in the same way Congress expects Federal employees to fulfill the promises included in the oath of office. We certainly recognize that the Federal deficit is large, but we believe we are doing our part.

As I mentioned, Federal employee reductions in pay and benefits have been scored at $170 billion since 1981. That amount equals $85,000 for every current Federal employee. I'd suggest that $85,000 is no small sum. We've worked with the administration and Congress to reinvent, reorganize, and streamline the government, resulting in billions of dollars of savings. And we believe there are billions more in savings from the work that is improperly contracted out. We are willing and eager to create a government that works better and costs less, but we cannot support a pension system where Federal employees in return pay more, work longer and receive less. Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Tobias follows:]

PREPARED STATEMENT OF ROBERT M. TOBIAS, PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION (NTEU)

Chairman Mica, Members of the Subcommittee: Thank you for the invitation to appear before you today. The National Treasury Employees Union represents more than 150,000 hard-working dedicated federal workers—workers who are dismayed to see that once again some Members of this body believe that their retirement benefits are too generous, that they are paid too much, and that somehow they have not yet contributed enough toward deficit reduction efforts.

Suggesting, as the premise of this hearing does, that the federal retirement system costs too much ignores several important facts:

The federal retirement system was reformed in 1986 under the stewardship of President Reagan, with the assistance and leadership of both houses of Congress, and the active participation of the recognized organizations representing federal workers. NTEU was proud to participate in that effort and, as in any major undertaking such as this, compromises were made. Participants to this effort came away with a sense of accomplishment that a new federal retirement system had been created—FERS—that not only met employee retirement security needs, but met the needs of the federal government as an employer. FERS was designed to be comparable to plans offered by private employers, and at the same time reined in federal retirement costs and created a stable, fully funded program to meet the federal government's needs well into the future. FERS was not adopted overnight. Its implementation followed years of analysis and review of private sector retirement

practice. It is a good plan, but it is by no means a Cadillac. Most importantly, it mirrored private sector practice in 1986 and that fact continues to hold true today.

Suggesting that the federal retirement systems need to be made more affordable ignores the fact that cuts in federal employee pay and benefits since 1981 have totalled nearly $170 billion dollars. One hundred and seventy billion dollars taken directly from the pockets of federal employees and retirees. And, despite the disproportionate gouging of federal employee and retiree programs, the federal budget still is not balanced. As we all know, even wholesale elimination of the federal retirement programs will not balance the federal budget.

Federal employment is not a glamorous job nor one where an individual can expect to get rich. The employees represented by NTEU are public servants who take great pride in providing service to their communities and to their country. According to the Office of Personnel Management (OPM), the average federal worker earns an annual salary of roughly $35,254 before taxes or deductions and retires from the federal government at 61.5 years of age after completing 30 years of dedicated federal service. While $35,254 is the average federal salary, many, many federal workers represented by this Union make far less.

Contrary to popular misinformation, the average federal worker in the Civil Service Retirement System (CSRS) can look forward to an annual pension of $12,779 after 20 years of service. After 30 years of service, this same retiree's pension rises to only $17,616. Unlike private sector pensions, CSRS pensions are in lieu of, not in addition to Social Security. Furthermore, unlike Social Security, federal pension benefits are fully taxable. Moreover, while nearly 40% of civilian federal workers have at least a bachelor's degree, compared to 208 of the population at large, according to the Bureau of Labor Statistics (BLS), the average before tax income of all U.S. retirees is $1800 more than that received by an average federal retiree.

Study after study by independent federal agencies and reputable benefits consulting and economic research firms continue to show that the federal retirement system for rank and file executive branch employees provides almost identical pension benefits to those offered by average private sector companies. The BLS reports that common eligibility requirements for a normal or unreduced private pension are: age 65 with no specified length of service, age 62 with 10 years of service, and 30 years of service at any age. As is common private sector practice, the minimum retirement age for federal workers is 55 only after completing 30 years of service.

It is also important to this discussion to point out that BLS surveys of private sector pension plans found that 95% of private plans require no employee contribution toward future pension benefits. Federal employees in the CSRS system contribute 7% of each paycheck toward their future retirement benefits. Yet, it is no secret that this Committee is seriously considering recommending that the pension contribution for federal workers be increased by at least 2% and perhaps even more. This is not a decision based on good pension policy, or even private sector practice, but is based solely on the need to reach a magic dollar amount in savings being demanded from this Committee's jurisdiction. How can this Committee justify imposing what clearly amounts to a pay cut on hard working middle class Americans in order to offset the costs of Contract with America proposals designed to provide capital gains and other tax breaks primarily to the Nation's wealthiest citizens? This is Robin Hood in reverse.

Mr. Chairman, federal workers, too, have a Contract with America. It begins with the oath of office each federal worker takes to well and faithfully uphold the duties of the position they occupy and it includes the fair pay and retirement benefits each employee is promised in return. Federal workers expect the federal government to live up to the terms of that contract. Proposals reportedly under consideration by this Committee to violate the terms of that contract mean federal workers will be expected to work longer, receive less in retirement benefits and pay more for any benefits they do receive. At a time when this Congress seeks to streamline the federal government and seeks more productivity from a declining number of federal workers, proposals such as those under consideration by this body will do nothing to further those goals.

If this Committee were serious in its efforts to streamline federal expenditures and eliminate instances of waste and fraud, the focus of this hearing today would be a serious review of federal service contracting procedures and cost overruns. How many studies of the massive, unjustified expenditures by the federal government on service contracts will have to be completed to get this Congress' attention? Federal contracting out costs represent a black hole that this body has an obligation to review. Rather than focusing on reducing retirement benefits that average only $12,779 annually after 20 years of dedicated federal service, I suggest the Committee should take a closer look at those who actually are getting rich off the federal government.

Earlier this month, the General Accounting Office (GAO) released its latest report criticizing federal contracting out procedures. As the GAO so aptly points out, contractors have a responsibility to support their shareholders by maximizing profits. Properly protecting the government's and the taxpayer's interests is the responsibility of the Congress. This responsibility requires a thorough review by this Committee of the federal dollars spent on contracting out federal services that can be accomplished at less expense by federal workers.

According to GAO, lax management and ineffective oversight of contracts continues to plague many federal agencies. GAO's review of three EPA Superfund contractors found that the federal government was being billed for entertainment expenses, tickets for sporting events and even the purchase of alcoholic beverage that were either not permitted or appeared questionable under contract regulations. It is unconscionable to this Union that this Committee would even consider cuts in modest federal retirement benefits while at the same time ignoring reports of contracting out fraud and cost overruns that have repeatedly been brought to Congress' attention.

In its report issued in February of 1994 and entitled, Measuring Costs of Advisors and Assistance Service Contractors vs. Federal Employees, the GAO found that the federal government could save millions of dollars by performing functions directly rather than allowing them to be performed by private contractors. For example, an audit of Air Force service contracts disclosed that the Air Force could have saved $6.2 million in 1990 alone if contractor work were performed in house. Furthermore, in a review of service contracts issued by the Department of Energy, the GAO found that between 26% and 53% could have been saved by performing the same work using federal employees.

Yet another study released by the Office of Management and Budget in January of 1994 reported that service contracts are the "fastest growing area of government procurement", accounting for $105 billion of the federal government's $200 billion Fiscal Year 1992 procurement program. Furthermore, OMB found that cost analyses and independent government cost estimates are not even performed by many agencies prior to the renewal, extension or even recompetition of existing federal contracts.

Mr. Chairman, the facts speak for themselves. Federal retirement benefits are not overly generous. They are not out of line with private sector practice. More importantly, they play a very important role in the federal government's ability to continue to attract the best workforce available. It is in every federal employee's best interest to work for a federal government that works better and costs less. And we have been participating in efforts to effectuate that goal, but proposals under consideration by this Committee to cut spending on pension programs that federal employees are relying on will require federal employees to pay more, work longer and get less. That is something we cannot and will not support.

I would be happy to answer any questions.

Mr. MICA. Mr. Tobias, I want to thank you for your testimony. A vote has been ordered on the floor. We will recess for approximately 20 minutes, give everyone about 10 minutes to get over and get back, and then we will proceed with Mr. Jasmine's testimony.

I do apologize but this is the order of the day, and Members only have a limited amount of time to go vote and get back. So with that we'll recess temporarily for 20 minutes. Thank you.

[Recess.]

Mr. MICA. I would like to go ahead and proceed if Mr. Jasmine's back. Again, I welcome each of our panelists and witnesses. Thank you for your testimony. We'll pick up where we left off with Mr. Jasmine's testimony.

Mr. JASMINE. Good afternoon, Mr. Chairman and members of the subcommittee. My name is Louis Jasmine, I'm the president of the National Federation of Federal Employees.

On behalf of the National Federation of Federal Employees I am pleased to be here today to offer my views on the efforts to reform the Federal retirement system. Before I begin I would like to commend the committee for its willingness to listen to the views, and

hopefully work with the representatives of employees who are directly affected by your actions and decisions.

At the onset I must state that NFFE is wholeheartedly opposed to any change in the Federal retirement system that will reduce the level of benefits received by current Federal retirees or expected to be received by current employees. NFFE is opposed not just because it's unfair to change the terms of the employment contract that Federal employees accepted when they joined the Federal service, but also because Federal employees and retirees have already contributed more than their fair share to the deficit reduction.

Federal employees alone have contributed some $40 billion toward deficit reduction over the last 12 years. In fact, the Omnibus Budget Reconciliation Act of 1993—which alone cost Federal retirees $12 billion through delayed COLA's, through the elimination of lump sum payments for new retirees, and modification of health insurance premiums—it singled out Federal retirement for the second largest cut of any entitlement program. Altogether, Federal employees and retirees have contributed more than $174 billion through cuts in their pay and retirement programs.

The purpose of the Federal retirement system, like its private sector counterpart, is to provide reasonable income security for retirement. Based on employees' contributions and years of service, the Civil Service Retirement and Disability Fund provided qualified retirees with a monthly annuity.

Many of those who advocate cuts in the Federal retirement are quick to point out that Federal retirement is the Nation's fourth largest entitlement program. However, it is a distant fourth. The three largest programs—Social Security, Medicare and Medicaid—make up over 70 percent of the entitlement spending. Federal retirement, by contrast, constitutes less than 5 percent of entitlement spending.

Contrary to the image propagated by advocates of slashing Federal retirement programs, Federal retirees are not living the high life on the back of the American taxpayers. In fact, the average yearly income for Federal retirees after taxes and out-of-pocket costs for health care and life insurance premiums is approximately $13,000, as my colleague has already stated. According to the Bureau of Labor Statistics, the average before-tax income of all U.S. retirees is $1,800 more, as my colleague Mr. Sturdivant has stated, than that of Federal employees. In fact, Federal workers must contribute at least 7 percent of their salaries to retirement. By contrast, the Bureau of Statistics has reported the 95 percent of the pension programs included in its broad survey of medium and large private companies do not require any employee contributions.

However, even though the Federal retirement system is clearly not one of the Nation's most generous retirement program, it is consistently the target of attacks. Three of the more popular suggestions for attacking the retirement are: No. 1, reducing Federal retirees COLA's; No. 2, raising the Federal retirement age; and three, reducing the government's contribution to the Thrift Savings Plan.

In the interest of time, let me just make three brief points about each of these areas.

First, the COLA's do not increase benefits, as my colleague has already mentioned. Rather, they prevent inflation from diminishing the value of Federal retirees annuities.

Second, raising the Federal retirement age is both unnecessary as well as unfair to Federal employees, since Federal employees retire at the same age as their private sector counterparts.

And third, the reducing of government's contribution to the thrift savings plan reduces the incentive to plan for retirement, and would have the greatest negative impact on lower income employees.

In addition to these attacks, many critics of the Federal retirement system also point to the so-called unfunded liability of the system as a reason for drastic reform. These criticisms are just another example of the information surrounding the Federal retirement system. At the end of fiscal year 1993, the Federal service retirement trust fund held a balance of $317.4 billion. As of that time the estimated total liabilities of the system were $857.5 billion.

Therefore, the retirement system could be considered only 37 percent funded. According to the Congressional Research Service, the fund has adequate resources to cover about 10 years of future benefit payments, if no future funds were deposited into the fund during that time. However, deposits are entered every year and official projections of the trust balance show that funding is more than adequate to cover benefit costs in this perpetuity.

The unfunded balance of future benefit payments of the Federal plan does not represent the same risk to Federal Government that the unfunded liability a private plan would pose to employers, to private employers. Federal law requires private firms to prefund most of their benefits to protect vested workers and retirees in case the firm goes out of business, in which case it must pay all accrued retirement benefits of past and current workers at the same time.

This situation cannot occur in the Federal sector because the Federal Government can never go out of business. Therefore, the government does not need to insure itself through prefunding the pension. Current and projected trust fund balances are fully adequate to back all current and future liabilities without any effect in the budget or the deficit, and without a need for additional tax revenues.

In conclusion, I must once again say that NFFE is opposed to any further cuts in Federal employee's retirement benefits. Federal employees have already contributed more than their fair share to the deficit reduction. As the 104th Congress convenes Federal employees will once again be asked to contribute their deficit—I hear you. Obviously all Americans should contribute their fair share. And with the Federal employees, we are due a reprieve, if not a rebate. Thank you. I ask for your indulgence. I'm a rookie here, so I took that advantage. Thank you very much.

[The prepared statement of Mr. Jasmine follows:]

Prepared Statement of Louis Jasmine, President, National Federation of Federal Employees (NFFE)

On behalf of the National Federation of Federal Employees, I am pleased to be here today to offer our views on the efforts to reform the Federal Retirement System. Before I begin I would like to commend the subcommittee for it willingness

to listen to the views, and hopefully work with, the representatives of the employees who are directly affected by your decisions and actions.

At the outset, I must state that NFFE is wholeheartedly opposed to any change in the federal retirement system that will reduce the level of benefits received by current federal retirees or that are expected to be received by current employees. NFFE is opposed not just because it unfair to change the terms of the employment contract that federal employees accepted when they joined the civil service, but also because federal employees and retirees have already contributed more than their fair share to deficit reduction.

In fact, federal retirees alone have contributed some $40 billion towards deficit reduction over the last 12 years. In fact, the Omnibus Budget Reconciliation Act of 1993—which alone cost federal retirees $12 billion through delayed COLAs, elimination of lump sum payments for new retirees, and modification of health insurance premiums—singled out federal retirement for the second largest cut of any entitlement program. All together, federal employees and retirees have contributed more than $174 billion through cuts in their pay and retirement programs.

THE FEDERAL RETIREMENT SYSTEM

The purpose of the federal retirement system, like its private sector counterparts, is to provide for reasonable income security in retirement. Based on employee contributions and years of service, the Civil Service Retirement and Disability Fund (CSDRF) provides qualified retirees with a monthly annuity.

Currently, all federal employees and retirees are covered under the provisions of either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS was established in 1920 and covers most federal employees hired prior to 1984. CSRS is a defined benefit plan consisting of an earned annuity based that is based upon the salary received by an employee during the final three years of their federal employment.

FERS was established in 1986 and is a defined benefit/contribution plan, consisting of Social Security, a small annuity and a Thrift Savings Plan.

Many of those who advocate cuts in federal retirement are quick to point out that federal retirement is the nation's fourth largest entitlement program. However, it is a distant fourth. The three largest programs—Social Security, Medicare, and Medicaid—make up over 70% percent of entitlement spending. Federal retirement, by contrast, constitutes less than 5 percent of federal entitlement spending.

Contrary to the image propagated by advocates of slashing federal retirement programs, federal retirees are not living the high life on the backs of American taxpayers. In fact, the average yearly income for a federal retiree—after taxes and out-of-pocket costs for health care and life insurance premiums—is approximately $13,000. According to the Bureau of Labor Statistics the average before-tax income of all U.S. retirees is $1,800 more than that of federal retirees. In addition, Federal workers must contribute at least 7 percent of their salaries to the retirement. By contrast, the Bureau of Labor Statistics has reported that 95 percent of the pension programs included in its broad survey of medium and large private companies do not require any employee contributions.

However, even though the Federal Retirement System is clearly not one of the Nation's most generous retirement programs, it is constantly the target of attacks. Three of the more "popular" suggestions for attacking federal retirement are reducing federal retiree colas; raising the federal retirement age; reducing the government's contribution to the Thrift Savings Plan.

Federal Retiree COLAs:

Proposals to reduce federal retiree cost of living amendments are based on the false assumption that the COLA adjustment increase the actual value of and retired employees pension. Contrary to popular opinion, COLA's do not increase benefits for retirees in terms of buying power. Rather, COLA adjustments, which are tied to increases in the Consumer Price Index, prevent inflation from reducing retirement benefits. COLA's are set in reaction to current costs, they do not precede them. This form of income security provides retirees with an effective protection against inflation induced poverty.

Raising Federal Retirement Age:

Proposals to raise the retirement age are based on two erroneous claims. First is the belief that the majority of American workers outside the federal government are ineligible for full pension benefits before the age of 65. However, that is a false belief. The Bureau of Labor Statistics has found that 9 out of 10 private sector pension plan participants can retire at age 55 or earlier. The second is that federal employees do not work past the age of 55. While it is true that employees covered under

the Civil Service Retirement System can retire at age 55 with 30 years of service, the vast majority do not. In fact, a recent Department of Labor study found that federal employees retire at an average age of 61.5, compared to the average retirement age of 62 in the private sector.

Reducing Government's Contribution to TSP:

During past Congresses, many critics of the Federal Retirement System have advocated restricting the government's matching contributions to the Thrift Savings Plan for current and future employees to fifty cents on the dollar up to 5 percent of an employees salary. Currently, the government provides a dollar for dollar match for the first 3 percent and fifty cents on the dollar for the remaining 2 percent. A cut in the government's matching contribution would have a disparate impact upon lower income employees. According to Federal Retirement Thrift Board, 83 percent of the employees who contribute to the three percent level have annual salaries of less than $35,000. In addition, any reduction in matching contributions to TSP would put the Government in the position of discouraging individuals from saving for their own retirement needs, thereby increasing the likelihood that these individuals will be forced to rely on government assistance in their later years. At a time when the United States is increasingly concerned about increasing the focus on savings for retirement, such a cut would be counterproductive.

Unfunded Liabilities:

In addition to these attacks many critics of the federal retirement system also point to the "so-called" unfunded liability of the system as a reason for drastic reform. These criticisms are just another example of the misinformation that surrounds the federal retirement system. At the end of FY 1993, the civil service retirement "trust fund" held a balance of $317.4 billion. As of that time, the estimated total liabilities of the system were $857.5 billion. Therefore the retirement system could be considered only 37 percent funded. According to the Congressional Research Service, the fund has adequate resources to cover about 10 years of future benefit payments, if no future funds were deposited into the fund during that time. However, deposits are entered every year and official projections of trust fund balances show that the funding is more than adequate to cover benefit costs in perpetuity.

The unfunded balance of future benefit payments of the Federal Plan does not represent the same risk to the Federal government that an unfunded liability of a private plan would pose to a private employers. Federal law requires private firms to prefund most of their benefits to protect vested workers and retirees in case the firm goes out of business, in which it must pay all accrued retirement benefits of past and current workers at one time. This situation cannot occur in the Federal sector because the Government can never go out of business. Therefore, the Government does not need to insure itself through full prefunding of pension. Current and projected trust fund balances are fully adequate to back up all current and future liabilities without any effect in the budget or the deficit, and without a need for additional tax revenues.

In conclusion, I must once again state that NFFE is opposed to any further cut in federal employee retirement benefits. NFFE believes that Federal employees have already contributed more than their fair share to deficit reductions. As the 104th Congress convenes, Federal employees will once again be asked to contribute to deficit reduction in a disproportionate way. Obviously, all Americans should contribute their "fair share" to deficit reduction; Federal employees have already done more than their "fair share" and so are indeed due a reprieve if not a rebate.

Mr. MICA. Well, I thank you. We ask for a reprieve. They just called another vote, but we can proceed with some questions for a moment.

One of our concerns in holding this hearing today is that no matter how you calculate it we have an outflow of $19.7 billion from the general Treasury. And you know the employees are now paying 7 percent, the agency is paying 7 percent, and there is 11.1 percent between COLA's and general Treasury contributions.

The budget amendment may have failed last week, but I can tell you there is great sincerity on the part of the administration and folks in both Houses on both sides of the aisle to make some serious cuts here. And you have to look at where the money is flowing

from. We see from the general revenue that it does require in excess of $1½ billion to supplement this outflow.

Mr. Jasmine said the Federal Government will never go out of existence. Well, that doesn't mean the Federal Government can go on indefinitely as far as paying and making these contributions at the rate we're doing. Each area of the Congress must look at their areas of responsibility. We're looking at the retirement system, and I have to look at what the outflow is here.

There are two ways this can be done. One is to leave it up to the Budget Committee, and they can go in and cut, slash, and burn. The other way is that we can sit down and look at what areas we can deal with.

First of all, it has been unanimous both on the part of this subcommittee and all of our witnesses that we don't touch benefits. And anyone who looks at the obligations that we've made, knows that we want to keep them as best we can and not touch them or not pull the chains of Federal retirees.

So you're not left with too many options. The only option left, quite frankly, is that since 1969, we have not changed the amount of employee contribution to offset some of the deficit we're making up from the Federal Treasury.

Another way is recalculating the Consumer Price Index, which affects everyone, Social Security recipients and others. If you have other recommendations I want to hear them. If you don't think the $540 billion unfunded liability is a problem, I think some of you stated we shouldn't address that. Nonetheless, we still have this monthly and annual outflow from the general Treasury.

If we don't address the problem it will be addressed for us. So how do you respond?

Mr. MORAN. Mr. Chairman, would you yield to me?

Mr. MICA. Yes. Go ahead.

Mr. MORAN. Maybe we can have a little discussion and then we could get into the questions. Emphasis is put on this $19 billion, but I think it's terribly important to understand that it's budget authority, it is not outlays. And so it really doesn't contribute to the deficit. Deficit is an outlay deficit. In fact, even the balanced budget amendment is based on outlays.

This is an intra-governmental transfer. They changed the books but they don't create any new outflow of money. In the private sector the reason why you need to pay up any unfunded liability is for the possibility that the company may go out of business, and it's only fair to the employees that the money be there to pay off their contractual obligations. As Mr. Jasmine and others have said, that's not likely to happen. We are in a unique situation as an employer.

But the most important thing is that we are not paying out money. And what we're trying to do when we talk about taxing Federal employees an extra 2 percent, so you would have to contribute 9 instead of 7, which is a very substantial proportional increase, is that is obligations, that is outlays that we are taking from Federal employees to make up for what is simply an intra-governmental transfer is no outflow of taxpayer's money. There is a big difference between outlays and budget authority.

Mr. MICA. There are two problems here, if the gentleman will yield back. First of all, we are less than the Treasury, at the end of the year, $19.7 billion. And it's more than an intra-governmental transfer, at least the information I have.

Second, what compounds the problem is the bidding war that we're now in with both the administration and the Congress. We have an obligation now to reduce to 272,000 positions. And we spent some of the money several ways, as we heard from our recent hearing on the actual workforce reduction. Whether it's 272,000 or if we do away with 25 percent of the Federal employees as some people in the Senate would have, most of the folks that are going to end up retiring or becoming part of the liability to the system are from the CSRS system, which is unfunded to the tune of $540 billion.

So we don't need to get to a point 10 or 15 years down the pike—and maybe contributions will keep us going for some time—to say that we should have acted, should have maintained the integrity of these funds and kept the obligations and prepared for these people to be recipients of what we have pledged.

So at some point you may have to make an adjustment, just as we made in 1986, when we established FERS.

Mr. MORAN. Well, the adjustment, though, was designed to eliminate CSRS so we won't have that problem. FERS is fully funded and the reality is that this extra 2 percent that the majority wants to take from Federal employees isn't going into bolstering the trust fund. It's going to go to deficit reduction.

Mr. MICA. I don't think there has been any determination on where we would take this from. It has been unanimous that we don't want to touch benefits and we don't want to touch retirees. We're starting to narrow our choices in trying to balance these sheets.

Now, I would like Mr. Tobias to respond.

Mr. TOBIAS. I believe, Mr. Chairman, that Mr. Moran is correct about the $19 billion. It does not constitute an outlay. The only thing that constitutes an outlay is the actual money paid in the form of retirement benefits to retirees.

And second, I would point out that the primary chunk of that $19 billion—I guess there are two chunks—one is the military service credit that comes from those in the military who come in under the CSRS pension, and someone has to pay for that. I don't think that should be Federal employees who are not veterans.

And third, the third chunk is interest that the government pays to itself on the money held by itself. So I would—there have been many, many suggestions that the Federal Government ought to invest that money in the private sector where it wouldn't have to pay interest to itself. But that has been resisted over time.

So I don't think that Federal employees ought to be punished because the government has chosen as it wishes to invest money and pay interest to itself. We shouldn't be asked to fund that through an increase.

And, fourth, I would say that in 1986 it became clear that once FERS was created there would be a declining amount of CRS employees paying into the trust fund because there are no more coming into that fund. So Congress contemplated that, they con-

templated the unfunded liability would increase. Now is not the time to ask them to pay more.

Mr. MICA. Well, we want to continue this dialog and discussion but there is another vote and we must recess again. If you will bear with us, we'll try to do this one in 15 to 17 minutes and return.

Mr. STURDIVANT. We will be here because we want to continue this dialog, too.

Mr. MICA. Thank you.

[Recess.]

Mr. MICA. We have at least two members of the panel here and I think Mr. Moran is on his way. I want to continue to give our participants the opportunity to testify.

We were on the question of outlays, and I had this chart prepared for me that shows that the payments to annuitants equals $36.4 billion. The actual receipts are $4.4 billion from employees, general government, and $5.1 billion for postal employees. Actually, showing—and I guess there are at least 2 to 1 Federal employees to postal employees—a total of $9.5 billion. The net outlay is $26.9 billion.

We can take all kinds of routes of looking at the different figures and what we end up with—I don't care how you calculate it—is an outflow of $19.7 billion that is reflected again each year in an obligation from the general trust fund to make up for deficits at whatever level, however this formula was concocted.

When we look at the Federal retirement system again today, it's not a question of the Federal retirement system collapsing in the near future, 10, 12, 14 years out. Some good, excellent work was done in 1986. Mr. Gould, who sat where Mr. Jasmine is, had worked on that, maybe more of you had been participants in revising that. And you did bring that House into order and FERS is a stable entity.

What we have now is this net outflow. Plus we still have the unfunded liability in the CSRS system of $540 billion, plus the element of more pressure being put on that area from where most of your future and immediate retirees will come as people leave the system.

I think everything we have heard is that the pressure would be on CSRS, unless someone knows something different in this downsizing. So those are two issues that we're trying to address.

Then the larger issue is the fiscal security of the United States of America. And if we don't look at how we can propose to be an equal partner in trying to bring down some of the deficit, we don't have to worry about the contribution or anything else because the Federal Government and the value of the dollar are going to be diminished as far as their worth and value. And that's what the whole exercise is about.

As cited earlier, I read this morning's paper about the value of the dollar sinking to a new low, because of uncertainty about the fiscal integrity of the United States of America. That's part of the problem. And whether you want your annuitants or your employees to wake up tomorrow and see their dollar worth 75 cents, or participate in some process to bring this whole House into order—anticipating the loss from general revenue, looking at the impact that

we may face here as we downsize on the $540 billion CSRS loss, and then looking at the $200 billion annual deficit that we're running.

So this is why I bring you here, the context in which I try to be preemptive and not have people come in and say, "We're going to cut your COLA's, we're going to cut your benefits, we're going to cut your compensation. We're going to deal with you from the budget standpoint or from the administration coming in this game of chicken that is being played out there." I would rather that we be a participant and a respondent in a positive fashion.

So, again, Mr. Sturdivant, if you want to respond.

Mr. STURDIVANT. Mr. Chairman, I think we have been participants. I think that the question that my members ask is how long are we going to play this losing game. In 1986 we swallowed, when we were having the problems with Social Security, we brought Federal employees under Social Security, you increased the retirement age to 57 for those folks. And we basically were able to go out—and it's always a tough sell, but we went out and told our folks that this is it, you know, they won't be back again and this will fix it in the long term, in the out years as, of course, CSRS goes away and you have FERS.

You know, you talk a little bit about—and I heard the discussion from the balance sheet—let's talk about the policy. This is extremely poor policy. From a policy standpoint, from a standpoint of trying to have qualified, competent, highly motivated people working for the Federal Government, this is poor policy. You want people to do more with less. You want them to be more creative. You want them to be more innovative. You want the Federal Government to be a high performance employer, and yet the first thing you do is say, "Well, we're going to give you a 2-percent pay cut or a tax increase for all standpoint."

We've had our pay cut. We've had our pay frozen. This is the first year that I can remember that health insurance premiums have not risen. And now we're asked to participate, as you call it—and we certainly appreciate the opportunity to present our views—but to participate in a process that would end up with the people that we represent in a least favorable economic situation than they started.

I don't know how much more my members can afford to participate. We have participated $170 billion. Every year—I testified before the Entitlement Commission, and as I told those folks, you don't need an Entitlement Commission to cut our benefits or to reduce our benefits, you do it every year in the budget. So this is deja vu all over again. Talk about $19 billion going out. The Federal Government spends $105 billion a year in contracting out, in contracting for government services. In a lot of agencies the Federal Government doesn't even know how much money it is spending on contracting out. The Department of Energy just informed its contractors that it was going to review the contracts and the costs of those contracts, and they started giving money back.

So from a policy standpoint it seems to me that, you know, trying to take 2 percent from Federal employees given the current environment is extremely poor policy, and certainly not something that I can find myself supporting. You know, we have worked to

reinvent the government, we've worked to make it better, we will continue to do that. But I don't know how many more times we can go back and tell folks, well, you know, we're going to have to give up some more.

Mr. MICA. If you wouldn't mind, and you may not be willing, no one suggested that anyone pay 2 percent all at once—but would you think that your employees over the future could make an additional contribution since we haven't changed the retirement contribution since 1969?

Mr. STURDIVANT. If you can tell folks that we're going to get FEPCA fully funded and if we're going to get——

Mr. MICA. Well, if we didn't touch any other benefits. The other thing, too, is with medical participation and premiums, it has been incumbent on just about everyone in America in the last 4 to 10 years to pay more in premiums or outlays. And I've seen some staggering figures of what the Federal Government is paying for medical costs. That's one reason we got into revising the whole system last year.

So there are increases, but also from time to time we have to look at what we're doing. If we don't want to cut benefits, if we don't want to cut the obligations and the commitments, we need to look at ways of meeting the Committee's obligation.

I appreciate, too, your mentioning the issue of contracting out. Mr. Moran has asked that we have a hearing and I think that we'll be doing contracting out soon.

Mrs. MORELLA. I have, too.

Mr. MICA. We have contracting out and we have buyouts, which we'll look at the cost effectiveness. We're looking at any way we can do a better job. I'm a new kid on the block, and only here 2 months. Mr. Moran, I yield to you.

Mr. MORAN. Thank you, Mr. Mica. Well, you know, I was critical of these gentlemen, particularly I think I aimed the criticism at Mr. Sturdivant, Mr. Tobias, particularly after the administration suggested us cutting a quarter of a million people and they went along with it.

Well, subsequently I had an opportunity to talk with them at length and came to realize that I was premature in my criticism and that, in fact, they realized that what was in the best interests of Federal employees was establishing a level of credibility so that they could deal with the legislative branch and the executive branch in a constructive, cooperative fashion. In other words, getting out in front, not having things imposed but being able to steer the direction in which we went with regards to the Federal workforce.

And I think they have earned that level of credibility. And that just makes matters worse if we now go back and revisit agreements that we have reached, particularly the agreement back in 1986 when we fixed the retirement system and phased out the CSRS and put in an FER system. That works. FERS is fully funded. CSRS is on its way to elimination. And, in fact, we are taking in twice as much money as we are paying out.

So I think we ought to recognize the context here, and that Federal workers and their representatives have been wanting to deal with us in a constructive way. Now we've got a situation where it

is being suggested to impose a tax on Federal employees. They would be the only people in the entire country that not only will not, under the contract plans, would not get a tax cut, but would get a tax increase.

And it just seems so inconsistent, not only with the level of credibility that has been established, but with the whole approach we are taking with the American workforce. This is part of the American workforce and they are being asked to perform the same responsibilities that existed before there was a cut of 272,900 people in their workforce. Normally, private corporations when they downsize they reduce their responsibilities.

We have not done that for the workforce. And here we are saying that we ought to be more like the private sector, when the private sector not only has Social Security, but they also have private pension plans. So we've heard earlier that 95 percent of them pay the entire amount. There just seems to be a real inequity and, you know, I know in many ways I'm preaching to the choir on these points but I think there are a lot of Members in the House, particularly on your side, because you got most of the freshmen, who don't understand some of the history of the Federal workforce and Federal benefit structure and the agreements that have previously been reached, and don't understand the level of credibility that the Federal workers' representatives have achieved, and they should be standing in good stead with the legislative representatives, the legislative branch because they have already made sacrifices as we've heard.

So that's the point we're going to make. And I know that you're getting a lot of pressure to come up with as much as $12 billion. But if you look at each of the alternatives, all of them are in some violation of agreements that have been made in the past. And with each of them we have compelling arguments why they are not a constructive approach to balancing the deficit.

We got final passage, I understand. Have I left anything out you want to add to that?

Mr. TOBIAS. I would just point out one thing that hasn't been mentioned today in the form of a tax. And that is that those folks who participate in the CSRS system right now make a 1.4 percent contribution to Medicare. Many Federal retirees are never eligible for Medicare. They will never get one wit of coverage or benefit from that, they're not eligible for that. [Applause.]

So when you talk about a tax or a contribution, that is a pure form of a tax that those folks who participate already pay.

Mr. MICA. Well, again, the purpose of this hearing is to look at the situation that has been created and try to deal with it as best we can. Also we have to deal with a vote. We're on final passage of H.R. 988. Members, do you have additional questions?

Mrs. MORELLA. I don't really have any questions, just a couple of brief comments. First of all, Mr. Tobias, I'm glad you mentioned that Medicare point, and I also have spoken to the chairman, who is very amenable to doing that hearing on contracting out because I pointed out that GAO report, and I just think we make assumptions and I think we need to see that this is a way that we can save money.

I was very interested in Mr. Jasmine's comment about the fact that there is really no unfunded liability. In looking at your statement where you say that if no future funds were deposited into the fund during the time there would be 10 years of full benefit payments, but if they were deposited every year official projections of trust fund balances show that the funding is more than adequate to cover in perpetuity. I found that to be a pretty definitive kind of statement.

Mr. JASMINE. Pretty definitive.

Mrs. MORELLA. And I appreciated, Mr. Sturdivant, the fact that you did bring out in sequential order some of the comments that have been discussed, whether we want to raise the Federal retirement age, with regard to the CSRS and FERS, and I think that's going to be very helpful for all of the Members. I thank you for being here. Unless anyone wants to make any comments.

Mr. STURDIVANT. Mr. Chairman, I'd just like to commend to you—and I guess we can get you a copy of this very slick magazine called "Plan Sponsor." One of our trustees for our pension plan gets it, it's very slick. And this is no left wing, you know, spendthrift group.

And even in this magazine they speak very highly about the Federal retirement system, and they debunk a lot of the myths about the unfunded liabilities and some of the other areas that we're talking about today. So I will have my staff get you a copy of this. Like I say, this is a staid, conservative magazine that looks at money.

Mr. MICA. Well, I do want to take this opportunity to thank each of you, for your patience, for your participation, for the contribution you're making. You are educating the panel, you're educating other Members of Congress. And I do think that you have some very reasonable folks on the panel who are trying to do the best job possible in addressing these issues.

If we stay united in our efforts and we try to make our points and look at where we can make progress together, we'll all benefit by it. And as the ranking member pointed out, there are a lot of new kids on the block, even newer than me, who don't understand some of the commitments that have been made in the past and they can act in a fashion that could be detrimental. We don't want that to happen, we want you to be a part of this process and make it positive.

Without objection I'll leave the record open for additional comments for you or any of our other witnesses, and I thank each and every one of you in our audience, those who came today for participating and being a part of this hearing. Thank you.

Mr. JASMINE. Thank you.

Mr. STURDIVANT. Thank you, Mr. Chairman.

Mr. TOBIAS. Thank you, Mr. Chairman.

Mr. MICA. This meeting is adjourned.

[Whereupon, at 2:45 p.m., the committee was adjourned, subject to the call of the Chair.]

[Additional material submitted for the record follows:]

JOINT PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF POSTAL SUPERVISORS (NAPS); THE NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES (NAPUS); AND THE NATIONAL LEAGUE OF POSTMASTERS (NLPM)

March 3, 1995

The Honorable John Mica
Chairman, House Subcommittee on Civil Service
Room B–371C
Rayburn House Office Building
Washington, DC 20515

DEAR CHAIRMAN MICA: This letter serves as a written response to your request for testimony on the need to reform the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). This is a joint submission from the following three management organizations: the National Association of Postal Supervisors (NAPS), organized in 1908, representing postal supervisors and managers in the 50 states, Guam, Puerto Rico and US Virgin Islands; and the National Association of Postmasters of the United States (NAPUS), organized in 1898, and the National League of Postmasters (NLPM), organized in 1904, representing active and retired postmasters throughout the United States. Unfortunately, we had such short notice of the hearing schedule that we are unable to send a witness to provide personal responses at the hearing. Instead, we are submitting our comments in this combined written statement.

We understand from the hearing invitation that specific recommendations were requested. However, because a budget proposal has not been formally made available to us that would indicate specific areas or amounts of deficit reduction to be achieved, our testimony is necessarily somewhat general in nature. It is our position that retirement benefits are a part of postal employees' compensation package, and are thus owed to the retiring employee as an implied part of his or her employment contract. The Supreme Court itself has defined federal retirement as a form of "deferred compensation for service" [*Davis* v. *Michigan Department of Treasury*, U.S. Supreme Court, No. 87–1020, March 28, 1989]. Federal/postal employees contribute to their retirement via payroll deductions. Annuitants are paid on the basis of age and years of creditable service.

Because most CSRS annuitants who have spent their lives in public service are unable to draw social security, the civil service retirement program provides their only source of retirement income. We maintain that cutting their benefits is the same as cutting those of social security recipients, an option that has already been rejected by Congress. CSRS and FERS are pensions which employees have earned. Social security is not a pension, yet Congress often speaks of all three as being the same. However, Congress has repeatedly attacked postal/federal COLAs but left social security COLAs intact. Congress should not reduce or delay CSRS and FERS COLAs, as it did in 1982, 1984, 1985 and 1993, unless it is willing to cut social security COLAs.

As another point of interest, we note that postal retirement benefits do not contribute in any way to the national debt. The Postal Service has paid the full cost of COLAs and health benefits for its retirees retroactive to 1971 (or since the enactment of the Postal Reorganization Act) at a cost of $14.5 billion. This sum includes all unfunded liabilities for postal retirees since 1971.

We will be pleased to discuss our positions further and in more detail, either as a group or individually, at a later date.

Respectfully submitted,

DAVID GAMES,
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ISBN 0-16-052260-9
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